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INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term goal is to ensure a higher proportion of people in work than ever before by 2010.

Five years ago the Government launched its Welfare to Work programme to tackle long-term unemployment. Since then, the New Deal has delivered large reductions in long-term unemployment, especially among young people, and help has been extended to support those areas and groups that suffer from the greatest labour market disadvantage. Reforms to the tax and benefit system and the National Minimum Wage have improved work incentives, particularly for those on low incomes.

Nevertheless, major challenges remain to reduce persistent economic inactivity and repeated periods of worklessness, and to raise levels of employment in the most deprived local areas and among people from ethnic minorities. Building on the progress already made, the Government is taking further steps to extend employment opportunity to all groups in all areas of Britain, by:

- **piloting a programme of intensive support in neighbourhoods with very high concentrations of worklessness.** The pilots will begin from April 2004 in twelve of the most deprived neighbourhoods in the country;
- **extending eligibility for the Job Grant,** and introducing a new higher rate of £250 for households with children, to ease the transition to work;
- **reforming the administration and design of Housing Benefit** to reduce inefficiencies in the current system and ease the transition to work for tenants;
- **piloting new measures to improve employment retention and advancement** among the low paid and those moving off welfare as part of a demonstration project from October 2003;
- **extending Employment Zones to lone parents and people returning to the New Deal** for a second time, and **testing the impact of multiple providers in the same areas;** and
- **piloting new means of support to help those with health problems and disabilities find work,** including enhanced advice on the return to work and a new return to work credit of £40 a week, from October 2003.

INTRODUCTION

4.1 Five years ago, the Government set out its aim of extending employment opportunity to all in a changing labour market. The Government's long-term goal is to ensure a higher proportion of people in work than ever before by 2010.

4.2 At the time, the labour market was characterised by a number of severe problems, many of which had developed over long periods. Despite five years of economic recovery, aggregate levels of unemployment were still high, especially compared with those seen before the 1980s. Over two million people were unemployed on the International Labour Organisation (ILO) definition, while long-term unemployment remained high by historical standards.

4.3 The previous 20 years had also seen a growing concentration of worklessness among certain individuals, households and communities. By the mid 1990s, more than one in six households had no one in work, while in the most deprived communities as many as half of the working age population were out of work.

4.4 These problems had multiple causes. Long-term trends had led to a decline in the demand for unskilled labour throughout the developed world. In the UK, the job prospects for those without skills declined dramatically. Alongside these economic changes were important social and demographic trends, including growing female employment and changing household composition.

4.5 Policy mistakes also contributed. Macroeconomic instability during the 1980s and early 1990s was deeply damaging to the labour market, with large falls in employment during recessions. The UK was often hardest hit by global slowdowns, with unemployment rising more sharply than in other countries. The numbers who were unemployed and on benefit peaked at around 3 million in both 1986 and 1992.

4.6 Offered too little help, many unemployed people drifted into economic inactivity, often on disability-related benefits, and never returned to work, even as the economy recovered. Rather than being a solution to these problems, the welfare system had become part of the problem itself. For an increasing number of people, it offered no help to find work or develop skills, and no recognition that for some families work simply did not pay.

Delivering employment opportunity for all

4.7 Since 1997, the Government has implemented a comprehensive programme of reform to improve the performance of the labour market and advance its long-term goal. The Government's strategy involves:

- maintaining macroeconomic stability and a flexible labour market, avoiding the cycle of boom and bust that leaves people detached from the labour market, and ensuring the right conditions for employers to create jobs;
- investing in education, to tackle one of the most important long-term causes of worklessness, lack of skills;
- Welfare to Work policies that help the unemployed, particularly the long-term unemployed, achieve a successful return to work;
- extending help and support to areas and groups suffering from the greatest employment disadvantage, tackling wider worklessness to extend employment opportunity to all individuals in all parts of Britain; and
- improving work incentives, to ensure that individuals are rewarded as they move into, and progress within, employment.

4.8 This chapter describes the strategy that the Government has followed over the past five years, evaluates progress to date and sets out how the Government intends to build on the results it has achieved to address the remaining barriers that prevent people from entering and progressing in work.

TACKLING UNEMPLOYMENT

4.9 A dynamic and flexible labour market is key to achieving and sustaining low levels of unemployment. The UK labour market is dynamic: around 1½ million people either move into employment or change jobs each quarter. Reforms introduced by the Government have ensured that the labour market remains dynamic and flexible and can adapt quickly to changes in global and domestic demand.

4.10 Though worklessness is a short-term experience for most unemployed people, those who do not return to work rapidly are at risk of prolonged disadvantage. Long-term unemployment¹ peaked at more than 800,000 in 1986, and long-term youth unemployment² at over 500,000. Five years ago, despite relatively strong economic growth, ILO unemployment still stood at 7.2 per cent; more than 400,000 people were long-term unemployed, and long-term youth unemployment stood at more than 175,000.

4.11 Those who experience long-term unemployment encounter ever greater difficulties finding work than those who have been unemployed for short periods. They are also more likely to move on to other benefits. Long-term youth unemployment is particularly damaging since early spells of unemployment can have a detrimental effect on future employment prospects. The initial focus of the Government's Welfare to Work strategy was, therefore, to tackle long-term unemployment, by equipping people with the skills and opportunities they need to find and remain in work, and ensuring they do not become detached from the labour market while out of work.

Tackling long-term unemployment

New Deal 4.12 The New Deal was launched in 1998 to end long-term youth unemployment. The New Deal for young people (NDYP) provides a range of support for 18 to 24 year old jobseekers, including regular contact with personal advisers, help with job search activities and assistance in addressing basic skills gaps. For those who do not move into work from the initial Gateway period, there is a range of further options providing full-time intensive activity and a follow through period to capitalise on employability gains. These rights are balanced with responsibilities – the New Deal ends the option for young people of remaining indefinitely on Jobseeker's Allowance.

4.13 The Government met its target of helping 250,000 young people move from welfare to work through the New Deal almost two years ahead of time in September 2000. The development of the New Deal for those aged 25 and over (ND25+) seeks to build on this success by providing assistance on a similar basis to older long-term unemployed people. NDYP and ND25+ have made substantial contributions to the reductions in long-term unemployment and long-term youth unemployment achieved over the past five years.

Over 50s 4.14 To improve the labour market position of older people, the New Deal for the over 50s (ND50+) was also introduced throughout the country in 2000. ND50+ offers a package of personal advice, help with job search, and in-work training and support tailored to the needs of older workers. ND50+ has assisted more than 75,000 people into jobs since that time, helping the employment rate of those aged between 50 and state retirement age rise to 68 per cent.

¹ Long-term unemployment is defined as those aged between 25 and state pension age who have been unemployed for more than 18 months.

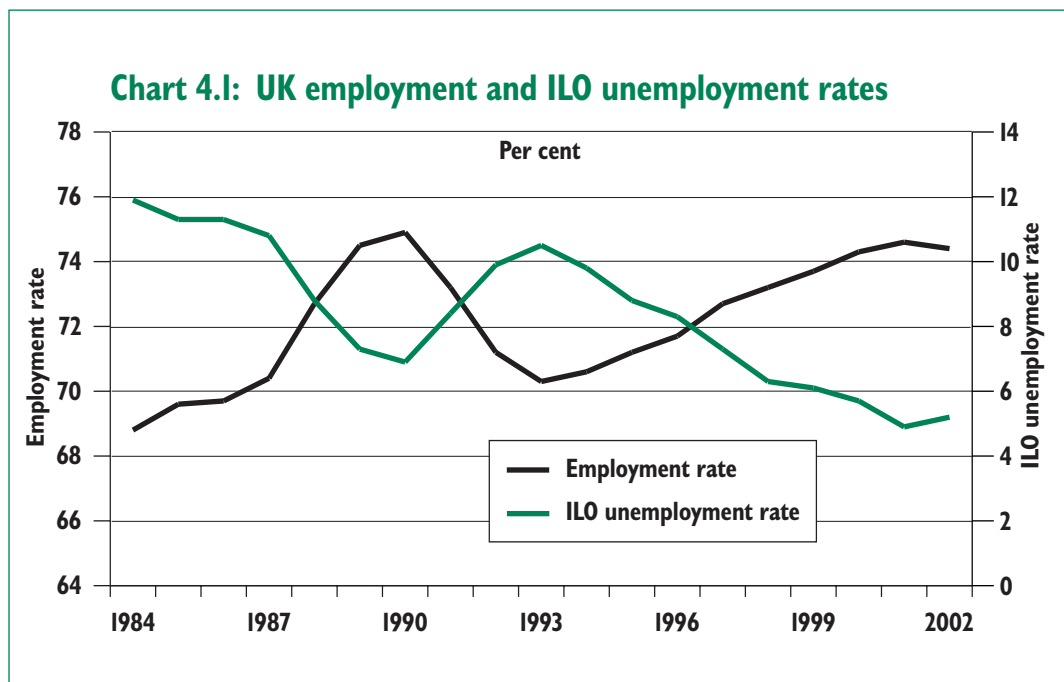
² Long-term youth unemployment is defined as people aged between 18 and 24 who have been unemployed for more than 6 months.

Employment Zones **4.15** In addition to the New Deal, Employment Zones are testing a new and innovative approach to helping long-term unemployed people aged 25 and over back into work, in partnership with private and voluntary sector organisations. Introduced in April 2000, Employment Zones differ from ND25+ in that jobseekers and their personal advisers are able to make more flexible use of available funds to overcome individual barriers to work. Employment Zones are currently being tested in 15 areas of England, Scotland and Wales, including in some of the most disadvantaged communities.

Reducing unemployment

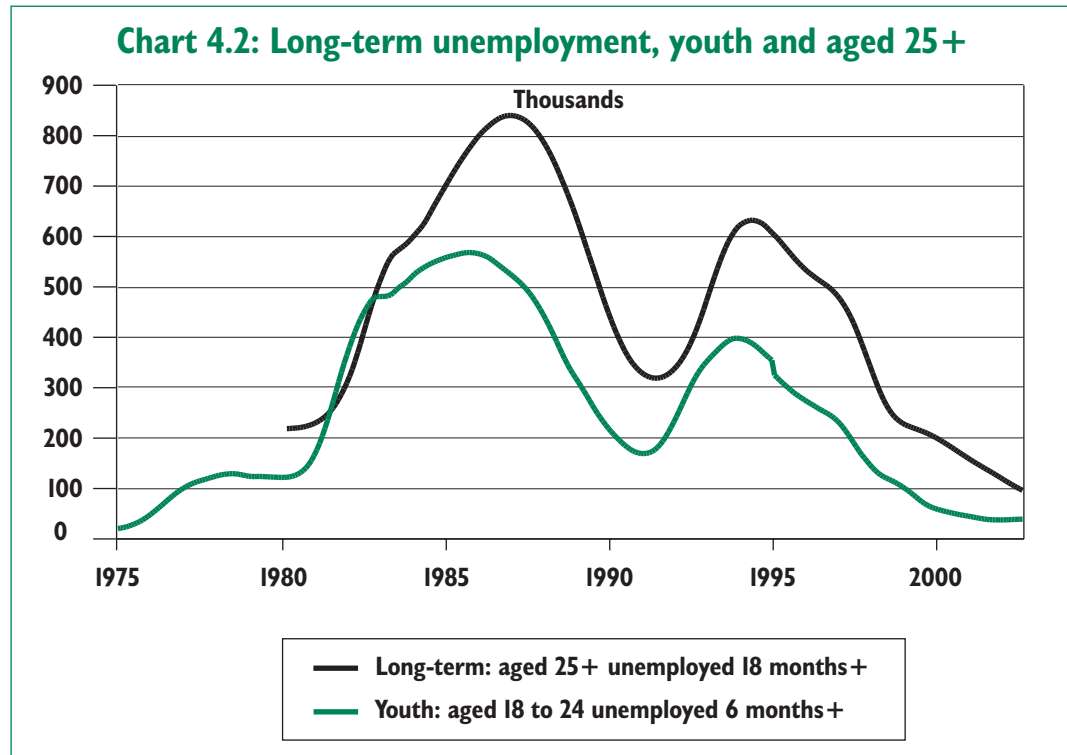
4.16 The Government's strategy to help the unemployed into work has delivered structural improvements in the labour market. The resilience of the UK labour market in recent years has set the UK economy apart from most other industrialised countries, many of which have seen the rate of unemployment rise significantly over the past year or so.

4.17 At 5.3 per cent, UK unemployment is now the lowest among the G7 economies for the first time since the 1950s. Claimant count unemployment has fallen by more than 700,000 over the past five years to levels last seen a generation ago, and has remained below one million since the start of 2001 – the first time this has happened since 1975. Spending on social security benefits for the unemployed is now £5 billion lower than it would have been had unemployment remained at 1996-97 levels. Employment is at record highs, having risen by 1.3 million since spring 1997.



4.18 The Government's strategy has helped to reduce long-term unemployment to levels last seen a generation ago. Over the past five years, long-term unemployment has fallen by over 300,000 – more than three quarters – and long-term youth unemployment has also fallen sharply. More than 375,000 long-term unemployed 18 to 24 year olds have found jobs through NDYP, while ND25+ has helped over 110,000 older long-term unemployed people back into work.

4.19 Independent research confirms the positive impact of the New Deal. In 2000, the National Institute of Economic and Social Research (NIESR)³ found that, without NDYP, the level of long-term youth unemployment would have been twice as high. A study by the National Centre for Social Research⁴ also concluded that NDYP has had a significant impact on the employability of young people.



Next steps

4.20 Despite the success of these New Deal programmes, significant challenges remain. More than 1.5 million people are still unemployed on the ILO definition and too many people continue to suffer repeated spells of unemployment and are therefore at risk of becoming long-term unemployed.

4.21 To address these challenges, the Government is now taking steps to extend the support offered under the New Deal and is considering how best to tailor future support. As announced in Budget 2002, **a more intensive approach to the Gateway period of ND25+ is planned in Dundee, London, Manchester and Swansea from April 2003**. This will provide mandatory, personalised help and support to address the needs of those aged 25 and over who have been out of work for 18 out of the last 21 months.

4.22 **The Government also intends to pilot mandatory schemes to extend eligibility for ND25+ to jobseekers who have been unemployed for a total of 18 months over the previous three years, rather than 18 of the previous 21 months.** These pilots are planned to begin in April 2003 and will focus support on jobseekers who have experienced repeated spells of unemployment. If the pilots prove successful, the Government will look to extend greater rights and responsibilities to those with histories of repeat unemployment who may not currently be eligible for the New Deal.

³ *The New Deal for young people: implications for employment and the public finances*, National Institute of Economic and Social Research, December 2000.

⁴ *New Deal for young people: national follow-through*, National Centre for Social Research, April 2000.

4.23 Early evidence on the use of Employment Zones (EZs) is encouraging and the Government intends to extend the help they provide more widely and to encourage innovation among providers. As announced in the 2002 Spending Review, **the Employment Zone approach will now be extended to people who would otherwise return to the New Deal for a second time in existing Employment Zone areas from October 2003.** In addition, the Government intends to **develop the Employment Zone model further by testing the effect of introducing multiple providers in the the largest EZ areas from April 2004.** Multiple providers will each be allocated a random cross-section of clients with similar characteristics so that performance can be compared on a like-for-like basis. **Employment Zones will also be extended to lone parents in existing EZ areas from October 2003.**

Funding for Welfare to Work

4.24 The Welfare to Work programme has been funded by the one-off Windfall Tax on the excess profits of the privatised utilities. In 1997 the Government expected to spend over £3 billion of the £5.2 billion Windfall Tax on the New Deal for young people. In the event, as Table 4.1 shows, the success of programmes to tackle long-term youth unemployment means that only £1.5 billion of the Windfall Tax will be needed for this programme. These savings have allowed the Government to extend its Welfare to Work strategy to address problems of wider worklessness and to improve skills.

4.25 The majority of the Welfare to Work programme is delivered by the Department for Work and Pensions (DWP) and the associated resources are generally now included within its Departmental Expenditure Limit (DEL). The 2002 Spending Review allocated extra resources to Welfare to Work programmes, including the national roll-out of Jobcentre Plus.

4.26 Table 4.1 sets out that element of the Welfare to Work programme across Government that is funded by the one-off Windfall Tax.

Table 4.1: Allocation of the Windfall Tax

£million	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04 ²	TOTAL
Spending by programme¹								
New Deal for young people ³	50	200	310	300	220	290	110	1480
New Deal for 25 plus	0	10	90	110	210	300	100	820
New Deal for over 50s	0	0	5	20	10	20	10	60
New Deal for lone parents	0	20	40	40	40	140	80	360
New Deal for disabled people ⁴	0	5	20	10	20	50	20	120
New Deal for partners	0	0	5	10	10	30	10	60
Childcare ⁵	0	20	10	5	0	0	0	35
University for Industry ⁶	0	5	0	0	0	0	0	5
Workforce development ⁷	0	0	0	0	0	30	170	200
ONE pilots ⁸	0	0	0	5	5	0	0	10
Action Teams	0	0	0	10	60	50	20	140
Enterprise development	0	0	0	10	20	10	0	40
Modernising the Employment Service	0	0	0	40	0	0	0	40
Total Resource Expenditure	50	260	480	550	590	920	520	3370
Capital costs⁹	90	270	260	750	450	0	0	1830
Estimated Windfall Tax Margin								0
Windfall Tax receipts	2600	2600						5200

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

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

³ Includes funding for the Innovation Fund.

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

⁵ Includes £30 million for out-of-school childcare. The costs of the 1997 Budget improvements in childcare through Family Credit are included from April 1998 until October 1999, after which the measure was incorporated within the Working Families' Tax Credit.

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

⁷ Includes £130 million from the Windfall Tax Margin for the second year of the Employer Training Pilots.

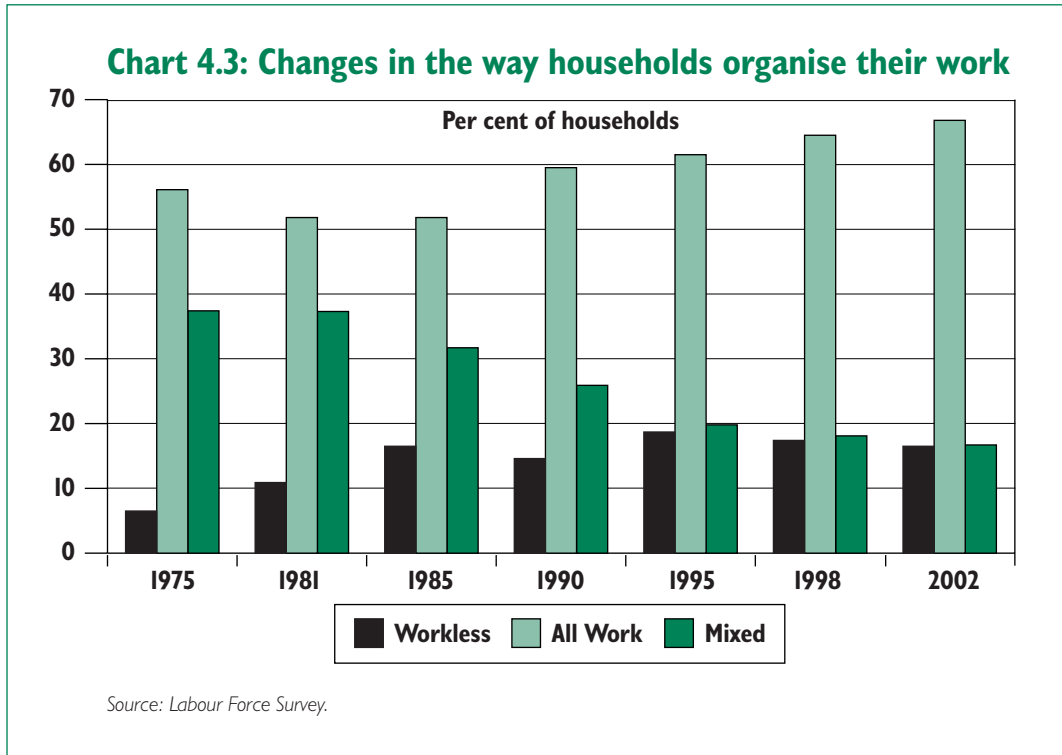
⁸ Funding for repeat interviews. Other funding comes from the Invest to Save budget.

⁹ Includes capital spending on renewal of school infrastructure, to help raise standards.

TACKLING WIDER WORKLESSNESS

4.27 In addition to rising unemployment, the 1980s and early 1990s saw changes in the pattern of employment within and across households. The employment rate of women rose from 59 per cent in 1975 to 66 per cent in 1995, although these increases were largely concentrated among women under 50, and those with higher skills. At the same time, male employment fell, particularly for those over 50, and those with lower skills.

4.28 Typically, these changes took place in different households, increasing the number of households in which all those of working age were in work, and concentrating worklessness into households in which no one was in work, as shown in Chart 4.3. Alongside a sharp increase in the number of single person households, the overall effect was a significant rise in the number of workless households to almost 3½ million – more than one in six – by the mid 1990s. Most of these lived on low incomes.



4.29 By this time, much of the rise in worklessness had manifested itself in economic inactivity rather than unemployment. Many people, particularly older people, were not offered sufficient help to return to work and became detached from the labour market altogether. For families with children, especially lone parents, and people on disability benefits, a lack of active help to search for jobs was compounded by poor work incentives from a tax and benefit system which did not recognise them as having the potential to return to work. Correspondingly, the number of people on inactive benefits rose substantially.

4.30 As well as being concentrated within households, employment opportunities were unequally distributed across areas of the country. In the 1980s, regional disparities in employment and unemployment rose sharply. While these disparities have subsequently narrowed, as every region has experienced falling unemployment and rising employment in recent years, pockets of high worklessness and deprivation persist throughout the country. These areas have failed to share in the rising national prosperity that economic stability has brought.

4.31 The Government is committed to helping all of those who are workless find employment and lift themselves out of poverty, not just the unemployed. In contrast to the 1980s and the early 1990s, during which time labour market programmes were overwhelmingly aimed at the unemployed, over the past five years the Government has extended assistance to all workless benefit claimants, widening the focus of its Welfare to Work policies.

Helping lone parents

4.32 Lone parents face particularly difficult choices when seeking to balance work and caring responsibilities. They make up fewer than one in ten of all households, and yet account for one in five of all workless households. The overwhelming majority of lone parents want to work and helping them to find employment is key to reducing the number of workless households and child poverty. The Government is committed to improving the choices faced by lone parents in the labour market and has introduced a range of support to achieve this. Its target is that 70 per cent of lone parents should be in work by 2010.

New Deal for lone parents **4.33** The New Deal for lone parents (NDLP) was launched nationally in October 1998. NDLP provides a comprehensive package of support, including access to a personal adviser; help with training, education and childcare; and advice on benefits, in-work financial support and self-employment. Since its introduction, eligibility for NDLP has been extended to all lone parents who are either not working or who work less than 16 hours a week.

Help with childcare **4.34** To complement the New Deal, the Government has also taken steps to improve access to childcare. Good quality, accessible and affordable childcare enables low income parents – particularly lone parents – to move into paid work and to lift their families out of poverty. It also provides all parents with opportunities to balance their work and family lives, with significant benefits for their children.

4.35 The Working Families' Tax Credit (WFTC) and the Disabled Person's Tax Credit (DPTC) provide assistance with childcare costs to lower and middle income parents, already benefiting more than three times the number of families that received the Family Credit childcare disregard at its peak. This assistance will continue, in an improved and more flexible form, as part of the Working Tax Credit from April 2003. Eligibility for the childcare element of the Working Tax Credit will be extended to include those who use approved childcare in their own homes, benefiting, among others, parents of disabled children and those who work outside conventional hours. In addition to financial support through the tax and benefit system, the Government's National Childcare Strategy helps providers of childcare to meet the growing demand for affordable and good quality care, and has created places that have helped over one million children since 1997.

4.36 The Government's strategy for helping parents to balance their work and family lives is described in Chapter 5. The Government will set out details of next steps in this strategy in the forthcoming document, *Balancing work and family life: enhancing choice and support for parents*.

Help for partners

New Deal for partners **4.37** Even in the 1990s, more than 50 years after Beveridge's original proposals, the benefit system treated partners of unemployed people – overwhelmingly women – as 'adult dependants' of the claimant – overwhelmingly men. The Government has sought to modernise the benefit system, extending the rights and responsibilities of Jobseeker's Allowance claimants to partners on an equal basis. Since April 2001, childless partners of the unemployed, where at least one partner was born after 1976, have also become joint Jobseeker's Allowance claimants. In October 2002, joint claims were extended to all childless partners of the unemployed where at least one partner was born after 1957. The Government also provides targeted support to households in which both partners are workless through the New Deal for partners – a personal adviser service for partners of benefit claimants.

Help for people with disabilities

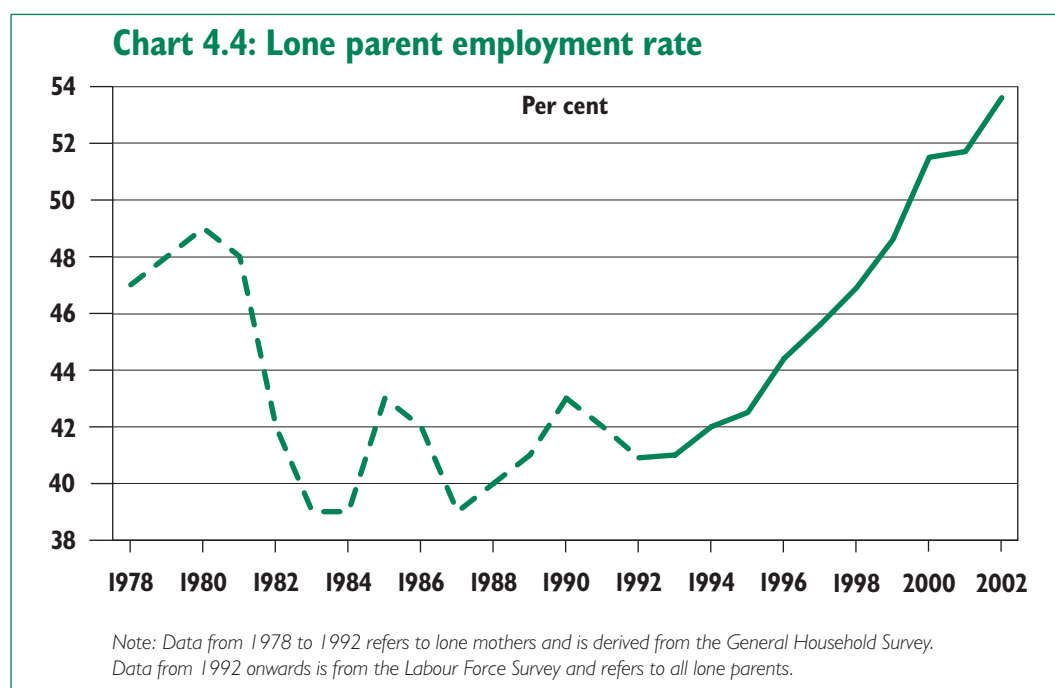
New Deal for disabled people **4.38** To help disabled people who are able to work, the Government introduced the New Deal for disabled people (NDDP) nationally in 2001. NDDP engages those moving on to Incapacity Benefit and provides a national network of innovative job brokers to help disabled people locate and move into secure employment. Over 6,000 people have been helped into jobs through the programme.

Support in work **4.39** To support disabled people in employment, the introduction of a new Job Retention and Rehabilitation Pilot (JRRP) began on 1 October 2002 and live service delivery will commence in April 2003. JRRP will test the impact of additional, early intervention in support of workers at risk of losing their job through sickness. From April 2003, disabled people in work will also receive financial support through the Working Tax Credit rather than the Disabled Person's Tax Credit. The Working Tax Credit will include an element to support workers with a disability, bringing them into the mainstream system of support and increasing the guaranteed minimum income for a single disabled person working 35 hours a week on the minimum wage to £193 a week, £21 a week more than in April 2002.

Reducing worklessness

4.40 The Government's strategy has helped to deliver significant reductions in worklessness over the past five years. The number of workless households has fallen by more than 300,000 from its peak of almost 3½ million, while the proportion of children living in workless households has fallen from 18 to 16 per cent. In contrast to the experience of the 1980s and early 1990s, the proportion of workless households has remained broadly flat over the past year, despite persistent weakness in the global economy.

4.41 Employment among lone parents has also risen substantially. As chart 4.4 shows, the lone parent employment rate stood at just over 40 per cent for much of the 1980s and early 1990s, despite most lone parents saying that they wanted to work. Over the past five years, the rate has risen, from 46 per cent in 1997 to 54 per cent in 2002, and for those with young as well as older children. The Government's Welfare to Work programme has played an important part in this – over 150,000 lone parents have now moved into work with the support of NDLP.



4.42 Worklessness among people with disabilities has been slower to fall. While annual flows on to incapacity-related benefits have fallen by nearly a quarter since 1996, the average duration of ongoing claims has increased by more than 10 per cent to 5 years and 8 months. As a consequence, more than 2.7 million people are now claiming incapacity-related benefits – more than the combined total of lone parents and unemployed people on benefit. Helping those who are able to work move successfully back into employment is central to securing further reductions in the overall level of inactivity.

Going further

4.43 The Government recognises that significant challenges lie ahead, and not just to improve the labour market position of people with disabilities. The employment rate of lone parents has increased, but there is still more to do to hit the Government's target. Moreover, high concentrations of worklessness still exist in a number of areas of the country. The Government is now taking steps to address these challenges and to deliver effective, work focused support to all working age benefit recipients.

Jobcentre Plus 4.44 More than 4¹/₄ million people of working age continue to live in households in which no one is working, and many workless households contain at least one person claiming an inactive benefit. In the past, the benefit system has failed to provide a work focused service to these individuals and they have not had access to the help and support available to other benefit claimants. The Government is changing this through the creation of Jobcentre Plus.

4.45 Jobcentre Plus brings together the Employment Service and those parts of the Benefits Agency dealing with working age people to deliver an active, work focused service to all working age benefit claimants, both unemployed and inactive. Anyone making a claim for benefit at a Jobcentre Plus office receives an interview with a personal adviser to discuss the opportunities available for taking up work. Claimants are given access to job vacancies, information, advice, training and support. This balancing of rights and responsibilities is central to the Government's strategy of work for those who can and security for those who cannot. Since its launch in April 2002, more than 60 Jobcentre Plus offices have already opened. **The Government aims to have opened more than 200 Jobcentre Plus offices by April 2003, and to complete the nationwide roll-out in 2006.**

4.46 Jobcentre Plus also plays an important role in matching firms' demand for staff with the available supply of workers. To enhance its service to small- and medium-sized enterprises (SMEs), it therefore intends to develop links with employer associations and other representative bodies to ensure that SMEs are given the specific help they need in the labour market, without placing undue burdens on them.

4.47 Levels of customer satisfaction are already high, but the Government aims to enhance the performance and accountability of Jobcentre Plus. From December 2002, **quarterly district performance tables will be published on the Jobcentre Plus website describing how each district has performed against its annual targets and absolute measures of labour market outcomes.**

Lone parents 4.48 Although lone parent employment rates have risen sharply, the Government recognises that more must be done if its target of a 70 per cent employment rate is to be met. The delivery of Jobcentre Plus is the most important next stage, but the Government intends to go further. As announced in Budget 2002, building on the success of NDLP, **the requirement to attend a personal adviser meeting will be extended to lone parents on Income Support with children under the age of five from April 2004.** This will ensure that all lone parents are informed about the help and support available to them. Following the success of recent pilots, **the Government is also rolling out a new national mentoring service**

for lone parents from April 2003 to provide confidential advice and support on a wide range of issues and increase the help available to those who wish to make the transition to work.

4.49 Given the important role of employers in improving access to work, **the Government has asked the National Employment Panel to consult leading employers on how best they might help lone parents into employment.** A group involving representatives of leading employers and lone parents' interest groups has now been established and will report in March 2003.

Extending help with childcare

4.50 To improve access to affordable and good quality childcare, the level of funding for childcare will more than double in real terms between 2002-03 and 2005-06. This increase forms part of a combined budget for a new integrated Sure Start, early years and childcare unit, which will rise to £1.5 billion by 2005-06. The additional funds are designed to:

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

Partners

4.51 The Government is currently considering the scope for providing further support to partners of benefit claimants under the New Deal, and is assessing whether other measures might be introduced to reduce the number of households in which both partners are out of work. Building on the success of joint claims, it is considering whether the benefit system can be further modernised to provide additional support to workless households. In addition, **compulsory work-focused interviews will be introduced for partners of all new benefit claimants and existing claimants without children from April 2004,** beyond those already having joint claim status for Jobseeker's Allowance. This will be extended to existing claimants with children once the roll-out of Jobcentre Plus is complete.

Helping those with health problems and disabilities

4.52 The Government also intends to go further to help disabled people find work. The recent Green Paper, *Pathways to work: helping people into employment*, describes how the Government intends to use the resources allocated in the 2002 Spending Review to trial earlier and more intensive support for disabled people. As well as improving referral routes between Jobcentre Plus and existing provision:

- **a new, more responsive system of work-focused interviews and innovative support for disabled people will be introduced** from autumn 2003 in six pilot areas;
- **the Adviser Discretion Fund will be extended to all personal advisers who provide return to work advice to people on Incapacity Benefit** in the same pilot areas. Jobcentre Plus advisers who handle this client group will be able to distribute funds of up to £300 per client to meet essential return to work costs; and
- **those who have claimed Incapacity Benefit for three months or more in the pilot areas will be eligible for a 12-month return to work credit of £40 a week,** assisting them in the transition to work.

Box 4.1: Ethnic minorities in the labour market

Although people from ethnic minorities have, on average, lower rates of employment than white people, this aggregate picture hides significant variation. Indian, Chinese and Black African people often fare better than white people in employment, earnings and progression, while Pakistani, Bangladeshi and Black Caribbean people experience consistent disadvantage compared with their white counterparts. These differences remain even after important explanatory factors, such as differing levels of education and skills, are accounted for. The evidence suggests significant and continuing discrimination.

People from ethnic minority groups are heavily concentrated in London and the big cities of the Midlands and the North. They are four times more likely than white people to live in the 44 most deprived areas of England. Moreover, around four-fifths of Pakistani and Bangladeshi households have an income at or below the national average, compared with just one quarter of white households.

Demographic characteristics suggest that those from ethnic minority communities are likely to make a significant contribution to future growth in the working age population, creating fresh challenges and opportunities for employers and the economy, as well as for ethnic minorities themselves. To address these challenges, the Prime Minister has asked the Cabinet Office's Strategy Unit to review the means of improving the labour market outcomes of ethnic minority groups.

The review suggests that further action is needed to prevent a deterioration in the labour market outcomes of disadvantaged ethnic groups. The Strategy Unit report will be published early next year and will propose a package of measures to deliver improvements in the future. These measures will address three priorities, including:

- the role of schools in raising educational attainment, through reforms to existing policies, programmes and activities;
- the need to ensure that ethnic minority communities benefit from existing labour market programmes such as the New Deal, and the importance of increasing residential mobility and improving access to transport and childcare needs; and
- the need to raise and support employers' awareness of equal opportunities, and to increase the efficacy of existing equal opportunities levers.

People from ethnic minorities

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

4.54 The Government has already taken steps to address the difficulties faced by ethnic minorities in the labour market. Action Teams have been introduced in 63 disadvantaged areas of Britain, many of which contain large ethnic minority communities, and a new outreach service was launched in April 2002 in five urban areas that are home to three quarters of Britain's ethnic minority population. This service aims to attract people to mainstream services, improve links between communities and employers, and provide specialist training where it may help individuals to find work. As described in Box 4.1 the Cabinet Office's Strategy Unit will report early in the new year on the further steps needed to improve the labour market position of disadvantaged ethnic groups.

Local worklessness 4.55 Rising concentrations of worklessness – particularly within inner cities, former coalfield communities and seaside towns – have led to the emergence of communities in which worklessness is no longer the exception, but the norm. Households that have experienced generations of unemployment often develop a cultural expectation of worklessness. These problems are reinforced when people rarely leave their immediate neighbourhoods, despite living close to economically vibrant areas.

4.56 Local areas that suffer from low employment rates often do not simply lack jobs. Many combine high vacancies with low employment or are found alongside other districts with large numbers of vacancies or jobs. A high proportion of residents may face multiple barriers to work.

4.57 To tackle the barriers to employment in some of the most deprived neighbourhoods and advance its long-term goal, the **Government therefore intends to pilot a programme of intensive support in neighbourhoods with very high concentrations of worklessness**. From April 2004, the pilots will begin in twelve of the most deprived neighbourhoods of the country. They will test a new approach of offering intensive support to residents within the pilot neighbourhood, to help them access the jobs that can often be found within travelling distance of where they live.

4.58 In each pilot area, residents claiming Jobseeker's Allowance will benefit from accelerated access onto the New Deal programmes after just three months of unemployment, compared with the current eligibility of six months for young people and 18 months for those aged 25 and over. Because economic inactivity is often more prevalent than unemployment in these neighbourhoods, more frequent work-focused interviews will also be introduced for all partners and lone parents, with new Incapacity Benefit claimants also given more help to ensure that employment opportunities and barriers to work are regularly discussed.

4.59 Each neighbourhood will also receive a flexible discretionary fund. This will allow personal advisers to tackle the substantial and varied barriers that prevent residents in these neighbourhoods from returning to work. The fund will provide personal advisers, working in cooperation with Local Strategic Partnerships, with flexibility to deliver services in ways that best meet the needs of the local community.

MAKING WORK PAY

4.60 Welfare to Work policies that help individuals to compete effectively in the labour market need to be supported by reforms to strengthen work incentives. The Government's strategy is designed to tackle two fundamental problems:

- the unemployment trap, when those without work find the difference between in-work and out-of-work income too small to provide an incentive to enter the labour market. In 1997, a couple with one child and one partner entering full-time work at a typical entry wage would have been just £30 a week better off than on benefit; and
- the poverty trap, when those in work are discouraged from working longer hours or from taking a better paid job because it may leave them little better off. In 1997, around 750,000 families lost more than 70 pence of every extra pound they earned through higher tax and national insurance contributions (NICs) and the withdrawal of benefit payments.

National Minimum Wage **4.61** Since it was introduced in April 1999, the National Minimum Wage has underpinned the Government's tax and benefit reforms by providing a fair minimum income from work. In line with the recommendations of the Low Pay Commission, the rates of the National Minimum Wage were increased in October 2002 to £4.20 an hour for workers aged 22 and over and to £3.60 an hour for workers aged between 18 and 21. Up to 1½ million low-paid workers will benefit from higher minimum rates of pay as a result of the last two increases in the National Minimum Wage.

4.62 The National Minimum Wage is also helping to bridge the gap between men and women's pay. Thirty years after the Equal Pay Act, women's full and part-time earnings stand at 81 and 59 per cent respectively of men's hourly full-time earnings. This discrepancy is particularly marked among low-skilled workers. The introduction of the National Minimum Wage, along with other steps the Government is taking, has helped to address this inequality, raising the wages of up to 850,000 women and reducing the pay gap, especially for women on low earnings. The Low Pay Commission is currently considering the appropriate future rates of the National Minimum Wage and is expected to make recommendations early next year.

Making work pay for all **4.63** The Government has taken steps to make work pay at all levels of the labour market, and particularly for those on low incomes. The 10 pence starting rate of income tax has halved the marginal tax rate of nearly two million low earners, and reforms to NICs introduced in the last Parliament mean that around one million low-income earners no longer pay NICs, while retaining entitlement to contributory benefits.

Additional targeted support **4.64** In addition to this support, the WFTC and DPTC have helped to improve work incentives for families with children and people with disabilities. The WFTC and DPTC currently benefit more than 1.3 million families and over 34,000 disabled people. Budget 2002 increased the basic credit in the WFTC and the credit for couples and lone parents in the DPTC by £2.50 a week on top of indexation from June 2002.

The Working Tax Credit **4.65** Building on the success of earlier tax and benefit reform, Budget 2002 introduced a new system of support to help families, tackle child poverty and make work pay. **From April 2003, the Working and Child Tax Credits will consolidate and improve existing streams of child and in-work support.** Nine out of ten families with children will be eligible for support, with the greatest help available to those who need it most. Details of the Child Tax Credit are set out in Chapter 5.

Box 4.2: The National Minimum Wage and the tax and benefit system

The National Minimum Wage and reform of the tax and benefit system are complementary instruments in pursuit of the Government's objectives to relieve poverty and increase work incentives. By setting a floor to earnings, the National Minimum Wage provides minimum income guarantees from work. These minimum incomes are further boosted by the tax credit system. The table below shows the minimum levels of income that different household types can expect from entering work, and how these have changed since the National Minimum Wage and the WFTC were introduced in April 1999 and October 1999 respectively. It also shows the effects of the new tax credits from April 2003.

Weekly minimum income guarantees

	April 1999	October 1999	April 2003
Family 1 child, full-time work (35 hours)	£182	£200	£237
Family 1 child, part-time work (16 hours)	£136	£144	£179
Single person, no children, 25 or over, full-time work (35 hours)	£113	£113	£154
Couple, no children, 25 or over, full-time work (35 hours)	£117	£117	£183

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

As well as establishing fair minimum income guarantees that improve work incentives, the National Minimum Wage and the Government's tax and benefit reforms interact in other important ways.

The National Minimum Wage ensures a fair return from working, while the Government's tax and benefit reforms focus in-work support on those who need it most. Wages are not responsive to family characteristics and needs, such as the number of children in a household. The National Minimum Wage and a tax and benefit system that focuses support on the most vulnerable groups together help to achieve the Government's poverty objectives.

Tax and benefit reform also helps to ensure that the minimum wage can be set at a level that avoids adverse employment effects. For example, as a result of the Government's reforms, it can now guarantee a minimum income of £237 a week for a family working full-time and with one child, equivalent to a minimum wage of more than £6.30 an hour. For part-time work the guarantee is £179, equivalent to a minimum wage of more than £10.10 an hour.

4.66 The Working Tax Credit is designed to help tackle poor work incentives and persistent poverty among working people. It will consolidate the adult elements of the WFTC and DPTC and extend in-work support to workers without children or disabilities. It will also replace the New Deal 50+ Employment Credit by including a return-to-work element for people aged 50 or over who have been receiving certain out-of-work benefits for at least six months. The Working Tax Credit:

- increases the generosity of support for couples with children and lone parents over and above that provided by the WFTC. Taken alongside the Child Tax Credit, a single earner couple with two children working full-time at the National Minimum Wage will receive around £400 a year more under this new system of support than under the WFTC and Children's Tax Credit in April 2002;

- contains a childcare element in recognition of the extra costs faced by working parents with childcare needs. The scope of this help is being extended to include those who use approved childcare in their own home. Unlike the rest of the Working Tax Credit, the childcare element will be paid directly to the main carer of the children in the family, usually the mother; and
- extends eligibility to people aged 25 and over without children or a disability who work 30 hours a week or more, improving work incentives and tackling poverty among this group

4.67 Table 4.2 sets out the principal elements of the Working Tax Credit.

Table 4.2: The principal elements¹ of the Working Tax Credit

£ per year/week in 2003-04	Annual	Weekly equivalent ²
Adult element	1,525	29.20
Couples and lone parents element	1,500	28.80
30 hours element	620	11.90
Disabled worker element	2,040	39.15
Childcare element		
–maximum eligible cost for one child		135
–maximum eligible cost for two or more children		200
–percentage of costs covered	70	
Threshold below which maximum Working Tax Credit is payable	5,060	
Withdrawal rate (per cent)	37	

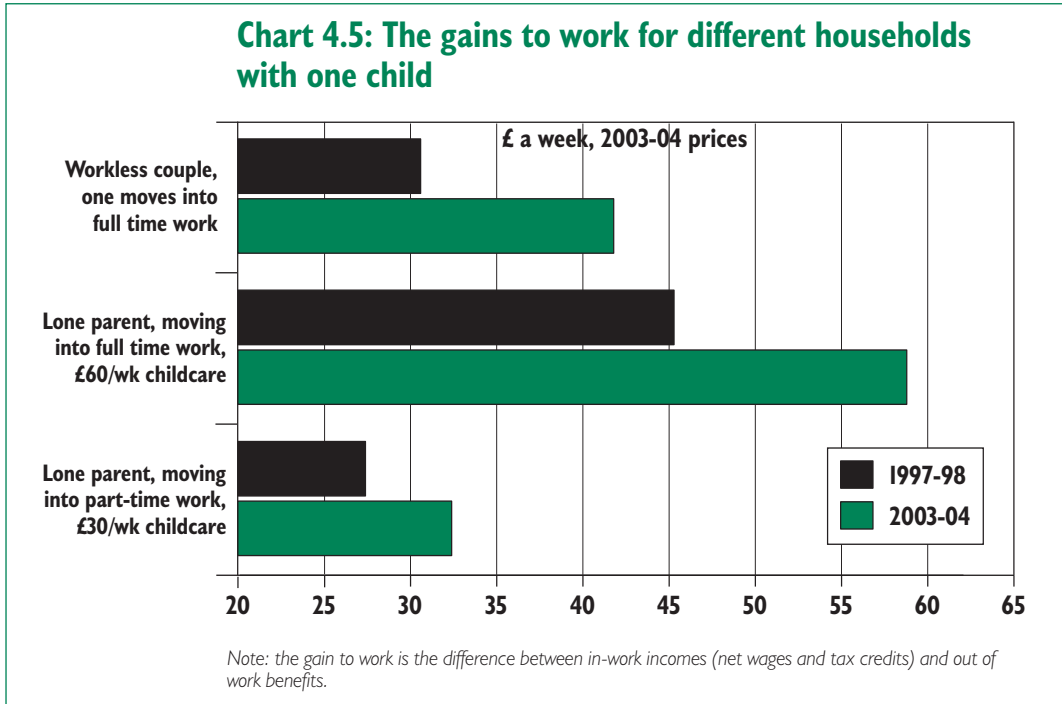
¹ People with severe disabilities or aged 50 or above going back to work after a period on a qualifying benefit will be entitled to extra support.

² The legislation sets annual amounts, and weekly equivalents are presented to allow comparison with the present system.

4.68 The Government has launched a nationwide awareness campaign ahead of the introduction of the new tax credits. The campaign tells people about the changes to the way in which financial support will be provided and informs them of what they may be entitled to. Further details are given in Chapter 5. From January 2003, Jobcentre Plus offices will also play a major role in disseminating information about the new tax credits and providing advice to clients on their eligibility.

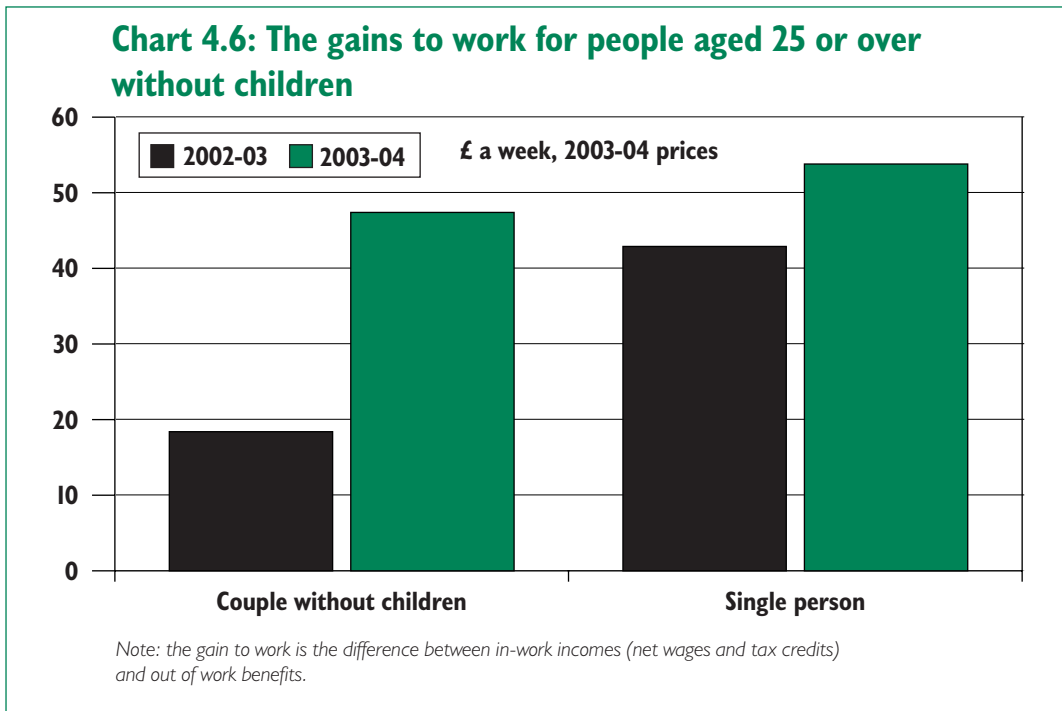
The effect of the Government's reforms to make work pay

4.69 The Government guarantees a minimum income from work to help tackle the unemployment trap and ensure that work pays more than benefits. Government reforms, including the introduction of the Child and Working Tax Credits, have increased the gains to work for households with children. Chart 4.5 shows the effect on households with one child.



Support for workers without children

4.70 The extension of in-work support to workers aged 25 and over without children or a disability will significantly increase work incentives for this group too. Chart 4.6 shows how the gain to work at typical entry wages will be improved by the Working Tax Credit. Alongside the National Minimum Wage, the Working Tax Credit will ensure a higher guaranteed income from work while protecting employment. Under the new system, a couple aged 25 and over in full-time work, without children or a disability will be guaranteed at least £183 per week. This amounts to an “effective minimum wage” of £5.25 an hour net of taxes.



The poverty trap 4.71 While improved gains to work are helping to tackle the unemployment trap, the Government also wants to ensure that workers have incentives to move up the earnings ladder, thereby tackling the poverty trap.

4.72 Marginal deduction rates measure the extent of the poverty trap by showing how much of every additional pound of gross earnings is lost through higher taxes and withdrawn benefit or tax credits. As a result of the Government's reforms to the tax and benefit system, the number of low income households facing marginal deduction rates of over 70 per cent has decreased steadily since 1997. Table 4.3 shows that the number of households facing marginal deduction rates of this level will have fallen by nearly half a million since April 1997 once the new tax credits are introduced.

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

Marginal deduction rate ¹	April 1997 ²	April 2002 ²	April 2003 ²
Over 100 per cent	5,000	0	0
Over 90 per cent	130,000	45,000	45,000
Over 80 per cent	300,000	210,000	200,000
Over 70 per cent	740,000	255,000	260,000
Over 60 per cent	760,000	940,000	1,450,000

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

² Figures are cumulative. Before Budget 1998 based on 1997–98 estimated caseload and take-up rates; after Budget 2002 based on 1999–2000 caseload and take-up rates.

4.73 This analysis is likely to overestimate the extent of high marginal deduction rates under the new tax credits, as it does not take into account the way in which they respond to rises in income. As they only respond to rises in income of more than £2,500 in the current year, compared with the last, recipients will not see their tax credits reduced as soon as their income rises. This feature of the new tax credits will reduce the effective marginal deduction rate in any one year. The system will, however, respond in full to falls in income as soon as they are identified, ensuring that support is provided to people in need, when they need it most.

Next steps

4.74 The Government's reforms, including the introduction of the Working Tax Credit from April 2003, improve work incentives, especially for those on the lowest incomes. However, for some people, particularly those who have been out of work for long periods, the transition to work can still be a difficult period. Entry wages are typically lower than for those already in employment, and the need to meet work-related expenses can lead many to prefer the certainty of benefits.

4.75 Easing the transition to work will help to achieve the Government's long-term employment goal. A smooth transition to work not only encourages people to seek and apply for work, it also improves their prospects of remaining in employment and progressing beyond entry-level jobs. The Government is therefore taking further steps to improve work incentives and to support job retention and advancement.

Job Grant 4.76 To provide extra help with the costs of entering a new job, the Government intends to **extend eligibility for the Job Grant and introduce a new rate of £250 for households with children**. From October 2004, the Job Grant will be available to those who move into work following six months on Incapacity Benefit or Income Support, including lone parents, or, for those aged 25 and over, Jobseeker's Allowance. As at present, Jobseeker's Allowance claimants aged between 18 and 24 will receive intensive support through NDYP, rather than be eligible for the Job Grant. These enhanced arrangements will replace the Back to Work Bonus and the lone parent Income Support run-on. They will also be complemented by further changes to additional sources of financial support, including an immediate **extension of access to the Adviser Discretionary Fund to all those who have been claiming benefits for six months or more when they return to work, to meet essential costs**.

Retention and advancement 4.77 Retaining a job and advancing in work can be particularly difficult for those who have just moved off welfare. This is particularly true for lone parents and those without qualifications. Some people continually move between low paid work and unemployment, trapped in a 'low pay, no pay' cycle. Around 25 per cent of people who leave Jobseeker's Allowance return to benefits within three months, and almost 40 per cent return within six months. The wages that people return to work on are also typically lower than for those already in work.

4.78 Budget 2001 announced a demonstration project to explore how best to improve employment retention and advancement among low paid workers and those moving off welfare. The design phase of the project, drawing on UK and international expertise, is now complete, and **the Government will now pilot new measures, including one-to-one support from a dedicated Advancement Support Adviser, and financial incentives to encourage employment retention and skills accumulation, in six areas from October 2003**. The pilots will test the effectiveness of these measures in improving employment retention and advancement for those joining ND25+ and NDLP, as well as lone parents in receipt of the Working Tax Credit working less than 30 hours a week.

Reforming Housing Benefit 4.79 Housing costs are a particular concern to many people moving into work. Evidence suggests that worklessness is concentrated among tenants, particularly those in social housing – only 49 per cent of those in local authority housing are in employment compared with 84 per cent of those in owner-occupied housing.

4.80 Housing Benefit provides help with rental costs for low income tenants in and out of work. Around 3.8 million tenants currently rely on it for help with their rent. However, the design and administration of Housing Benefit can hinder the transition to work for some people. Claimants often do not know until after they have moved into a property whether or not their entitlement will meet the cost of their rent. Moreover, delays in processing new applications after a claimant returns to employment can lead to rent arrears and debt, dissuading some people from moving into work.

4.81 The Government has taken a number of steps to alleviate the problems associated with Housing Benefit, working with local authorities and other organisations to improve administration, restructuring rents in the social sector and moving 800,000 people off Housing Benefit through higher employment and in-work support. Building on these steps, **the Secretary of State for Work and Pensions recently announced a range of further reforms to simplify and streamline the administration of Housing Benefit**, reducing its capacity to act as a barrier to work. These reforms include:

- the piloting in Pathfinder areas of a flat rate local housing allowance for tenants in the deregulated private rented sector. This will ensure that tenants know in advance what rent can be covered by Housing Benefit in these areas

and ends the requirement that individual claims are referred to rent officers, simplifying and speeding up the claims process; and

- further steps to quicken and simplify the administration of Housing Benefit claims. These steps include ending the requirement that people make fresh claims whenever they take a job, a more efficient reclaim process for people whose employment ends, ensuring that Housing Benefit runs on automatically for claimants returning to work after six months or more spent unemployed while the local authority recalculates entitlement, and ending the requirement that all Housing Benefit claimants make a fresh claim annually.

4.82 The Government also proposes to extend the Housing Benefit run-on to those who have received Incapacity Benefit or Severe Disablement Allowance continuously for at least six months, bringing the treatment of this group in to line with that of Jobseeker's Allowance claimants and lone parents and removing a significant barrier to work for people with disabilities.

4.83 This package of reforms will lead to further improvement in the administration of Housing Benefit, reducing inefficiencies in the current system and easing the transition to work for large numbers of tenants seeking employment. It will also provide valuable evidence on which to base further action to improve and reform the functioning of Housing Benefit over the longer term.

