

4

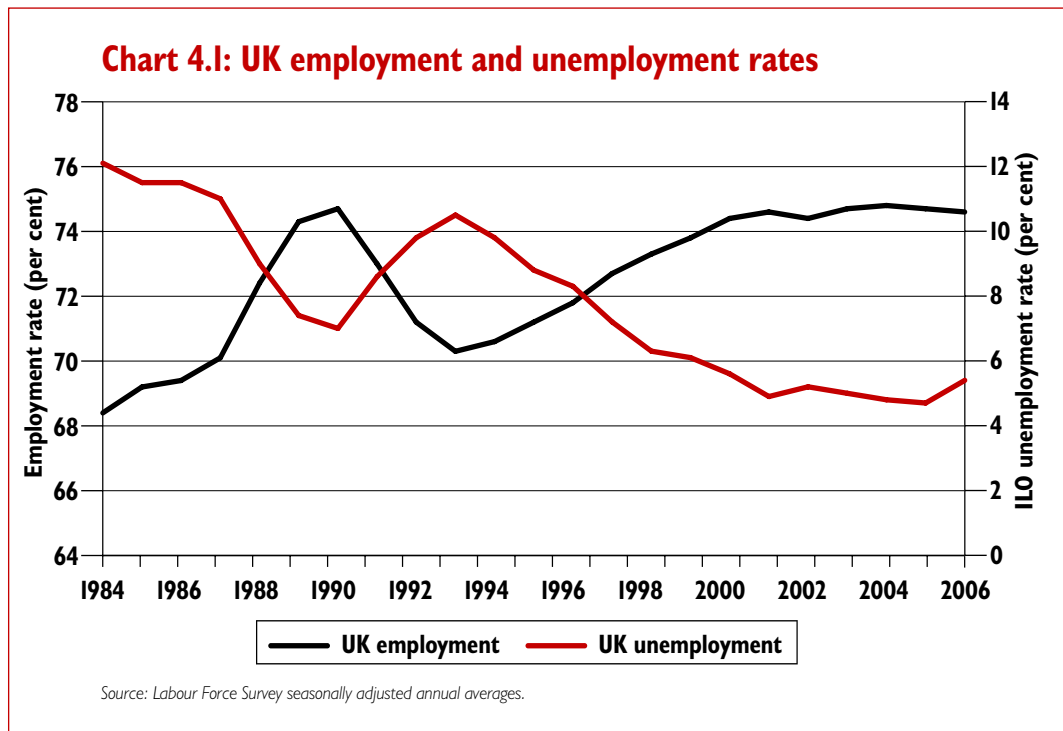
INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term goal is employment opportunity for all - the modern definition of full employment. Delivering this requires that everyone should be provided with the support they need to find, retain and progress in work, and adapt to and benefit from a global labour market. This chapter describes the principles which underpin the Government's welfare reform agenda, and the further steps it is taking towards its aim of employment opportunity for all, including:

- **to provide further help to lone parents to stay in employment, by continuing to make In-Work Credit available to eligible lone parents in the current pilot areas until June 2008, benefiting over 250,000 lone parents, and offering a higher rate of £60 across the whole of London;**
- **introducing a four-week run-on in entitlement to Working Tax Credit from the day that a previously eligible claimant ceases to work 16 hours;**
- **testing reforms to the education and training offered to participants on New Deal for young people, and testing a seamless link from New Deal to in-work training delivered through Train to Gain;**
- **announcing local employment partnerships with large retail employers working in partnership with Jobcentre Plus at a local level, to help the long-term unemployed and economically inactive back to work;**
- **trailing short, work-focused approaches for English as a second or other language (ESOL) courses in the London Cities Strategy pathfinders for parents on benefits or tax credits;**
- **further improve the administration of Housing Benefit, and setting out an intention to reform Housing Benefit subsidy for temporary accommodation;**
- **introducing a package of measures to align further and simplify the benefits system; and**
- **following the Low Pay Commission recommendations, raising the adult rate of the National Minimum Wage to £5.52 per hour, the youth rate, for workers aged between 18 to 21, to £4.60 and the development rate, for 16 and 17-year olds to £3.40; all from October 2007.**

4.1 The Government's long-term goal is employment opportunity for all – the modern definition of full employment. The strong labour market performance of recent years has helped deliver this, with many of the previously most disadvantaged groups and regions demonstrating the most significant improvements.

Labour market performance **4.2** Employment in the UK reached 29 million in 2006 for the first time; the highest figure since comparable records began in 1971. As Chart 4.1 shows, the working age employment rate is now 74.4 per cent, up from 72.7 per cent in 1997. The International Labour Organisation (ILO) unemployment rate, meanwhile, is 5.5 per cent, down from 7.2 per cent in 1997. The temporary rise in the unemployment rate during 2006 has abated, with the broader ILO measure falling in the final quarter of the year. The UK unemployment rate remains significantly below the EU average of 7.5 per cent.



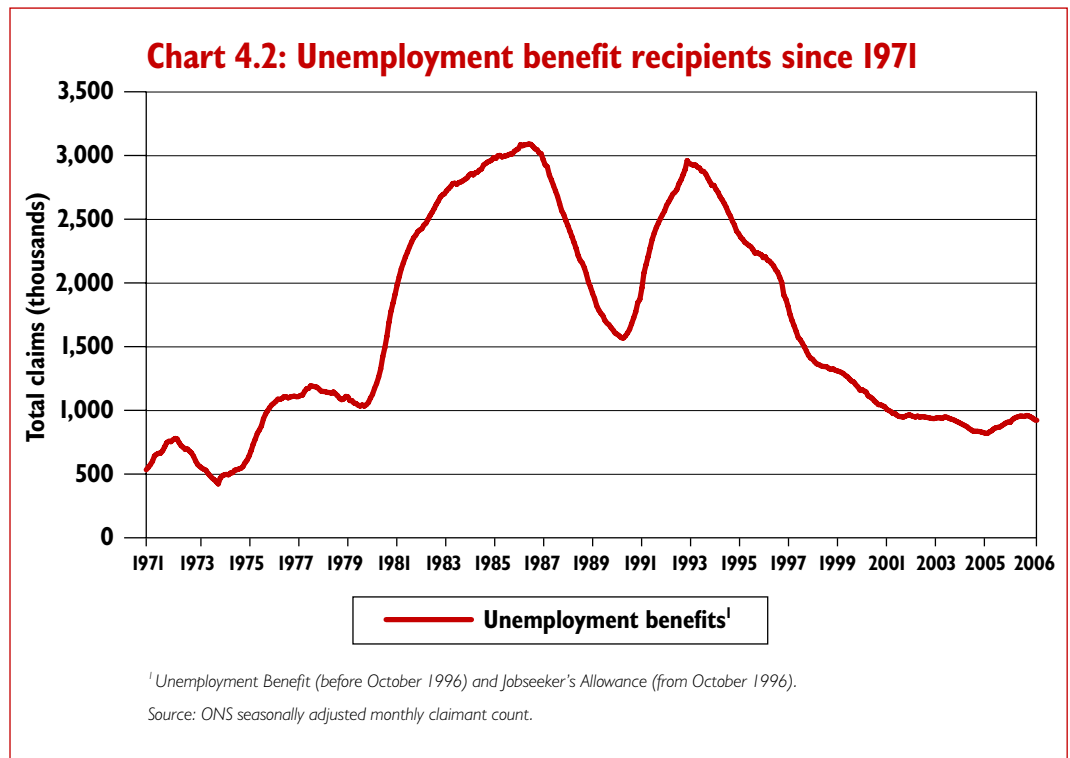
4.3 The improvements in labour market performance have been of particular benefit to groups traditionally disadvantaged in the labour market. Since 1997, the employment rate of lone parents has risen by 11.8 percentage points;¹ of working age people aged over 50, by 6.4 percentage points; and of people with a health condition or disability, by 9.8 percentage points.² Since 2001, the employment rate of ethnic minority groups has also risen by 2.5 percentage points and is now over 60 per cent.

Inactivity 4.4 Labour supply growth in 2006 was the strongest in over 20 years due to strong working age population growth and declining 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 January 2007, with 71,000 people moving out of inactivity and into the labour market.

Working age benefits 4.5 For the majority of jobseekers, unemployment is a short-term state of transition; around 80 per cent move off benefit within 6 months. Jobseeker's Allowance (JSA) is designed to provide financial support in a way that encourages a quick return to work through independent jobsearch. The intervention regime supports, monitors and enforces independent jobsearch for short-term claimants, and provides more intensive support for the minority who fail to find work quickly. The regime has directly contributed to a fall in the claimant count from 1,662,600 in 1997 to 922,200 in February 2007. As Chart 4.2 shows, the rise in the claimant count through 2006 has begun to reverse, and the total has held under 1 million for 73 consecutive months – the longest period below this level since the 1970s.

¹ Under Eurostat regulations the Labour Force Survey has changed from being based on seasonal quarters to calendar quarters. Some figures have therefore changed from those published in Pre-Budget Report 2006 (see Chart 4.5 for details).

² Change is since 1998 for figures for people with a health condition or disability, as the figures for 1997 are not comparable due to changes in definitions.



DELIVERING EMPLOYMENT OPPORTUNITIES FOR ALL

The challenge for the next decade

Key principles of welfare reform 4.6 The challenge now is to build on the successes of the past decade with further steps to deliver employment opportunity for all. The integration of benefits and employment support through Jobcentre Plus has transformed the delivery of welfare to work. This now needs to be complemented by an integrated employment and skills agenda and even more effective active labour market programmes, ensuring that everyone has the opportunity to find and progress in work.

4.7 The Government's approach to ongoing welfare reform is based on five key principles. Informed by the development of active labour market policy over the past decade, these principles will underpin further reforms over the coming years, and are described in more detail in Box 4.1.

Box 4.1 Principles of welfare reform

In taking forward its welfare reform agenda, the Government has set itself two ambitious and inter-related goals:

- to ensure **employment opportunity for all**, giving everyone the opportunity to fulfil their individual, social and economic potential. Achieving this requires effective labour market policies set against a background of macroeconomic stability; and
- to foster a **world class skills base**, equipping everyone with the means to find, retain and progress in work, and the ability to adapt to and benefit from a globalising labour market. Integrating the employment and skills agendas is central to achieving this.

While substantial progress has already been made in the direction of these goals, much more remains to be done. Informed by the successful active labour market policies of the past decade, the Government's approach to labour market reform over the coming years will be underpinned by five key principles:

- **rights and responsibilities** underpin the welfare reform agenda. Everyone should have the opportunity to work; and for this to be effective, it needs to be supported by access to appropriate training, information and advice, by action to prevent or remedy discrimination, and by measures to make work pay, including a minimum wage. These responsibilities on the part of the Government are matched by the responsibility of individuals, where possible, to prepare for, look for and engage in work;
- employment support should be focused not just on **job entry, but also on retention and progression**. Helping people into work is clearly central to the welfare reform agenda. This does not, however, preclude a focus also on helping people – particularly those at a disadvantage in the labour market – remain and advance in work, through advice, incentives and training opportunities;
- the system should be sufficiently flexible as to allow, where appropriate, a **personalised and responsive** approach. The New Deals have achieved considerable success by tailoring policy to particular groups. Where possible, policy should be tailored to individual needs and integrated with skills, health and financial support;
- delivery should be **joined up**, making best use of expertise across the public, private and third sectors. The resources of each should be focused on where they can add the greatest value, in the context of a clear strategy and set of required outcomes; and
- regions, cities and localities can play an important role in identifying strategic priorities and delivering solutions, and this should be recognised, where appropriate, through **devolution and local empowerment**.

Integrating benefits and employment support

Jobcentre Plus: transforming customer service 4.8 The delivery of employment support and benefits services has, over the past five years, been transformed by the operations of Jobcentre Plus, the introduction of which marked a key stage in transforming a previously too often passive welfare state into a proactive, personalised and work-focused service. Jobcentre Plus was launched in April 2002, bringing together the Employment Service and those parts of the Benefits Agency that delivered services to people of working age; a very visible manifestation of the integrated

rights and responsibilities agenda that underpins the Government's approach to welfare reform. By facilitating more effective delivery and improved customer service, Jobcentre Plus has made a substantial contribution to tackling poverty, reducing worklessness, and promoting growth and opportunity.

4.9 The roll out of the new Jobcentre Plus network is now almost complete with over 850 of 865 sites rolled out. The process of modernising Jobcentre Plus processes and operations is, however, continuing. The Agency's organisation has been redesigned to focus resources on customer facing services. Jobcentre Plus is also boosting the capacity of its contact centres and investing in a new network of Benefit Delivery Centres to streamline the delivery of its services.

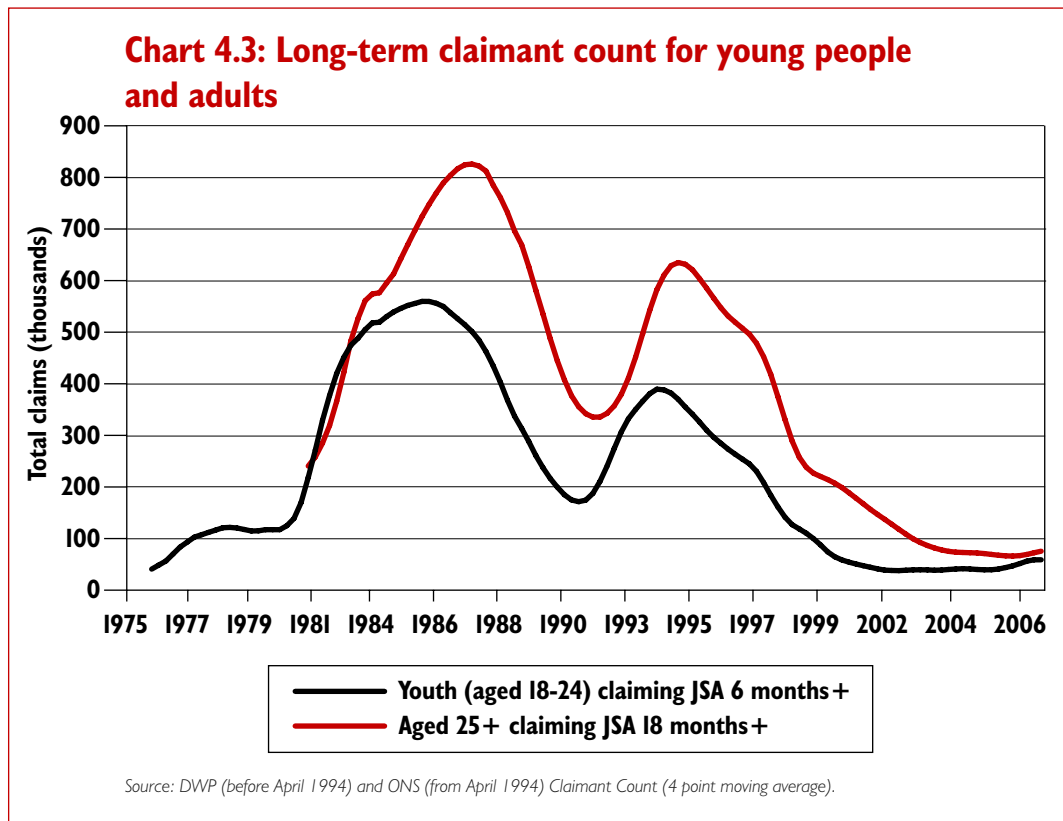
Integrating the employment and skills agenda

Implementing the Leitch agenda **4.10** In a global economy, skills become increasingly important in enabling people to adapt to and benefit from change, providing individuals with the flexibility that delivers genuine economic security. As the Leitch Review of Skills, *Prosperity for all in the global economy – world class skills*, published on 5 December 2006, recommended, support should not necessarily be confined to helping someone into work, but should also, where appropriate, extend to helping that person stay in and progress in work.

4.11 This requires both Jobcentre Plus and the Learning and Skills Council to work together on longer term support and retention and advancement – delivering a seamless service that enables low-skilled individuals to get the skills they need to build a career. The Government will consider the incentives given to both organisations to ensure that there is a sufficient focus on retention and progression. The Government will also take steps to improve the vertical and horizontal coordination across government and between government, business and the private and third sector to help the low-skilled enter, remain in and advance in the labour market, including the establishment of the Commission for Employment and Skills. (Chapter 3 sets out the plans for the Government's response to the Leitch Review's recommendations).

Building on the success of the New Deal

Strengthening the New Deal **4.12** The New Deal has been fundamental to the success of the Government's labour market policies. It provides support from Personal Advisers, followed by – for JSA claimants – mandatory full time training or subsidised employment to ensure that no claimant remains indefinitely and passively on benefit. Over the last decade, the New Deal has found 1.9 million jobs for participants, including 858,000 for young people and 298,000 for unemployed adults. This success has contributed to a nearly two-thirds reduction in the long-term claimant count since 1997, as Chart 4.3 illustrates.



4.13 Independent evaluations have repeatedly highlighted the New Deal's success and cost effectiveness. The National Institute of Economic and Social Research (NIESR) concluded in 2000³ 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 was richer by £500 million as a result of NDYP. More recent studies show that: NDYP has significantly increased exit rates from unemployment in all regions;⁴ overall youth unemployment has been reduced by between 30,000 and 40,000;⁵ young men are now 20 per cent more likely to find work as a result of NDYP;^{6,7} and the social benefits of NDYP outweigh the costs.⁸

4.14 As the labour market evolves over the next decade, with globalisation, and the increasing use of technology shifting labour demand further towards the higher skilled, the New Deal will also need to evolve to respond to the changing needs of the unemployed. The challenge for the New Deal is to ensure that those without the basic level of skills needed to compete in the labour market, can access the training they need. Any young person who fails to find work in the early stages of the New Deal 'Gateway'⁹ should have the opportunity to build up his or her skills in a workplace environment. This should be done in a way that both increases the number of people moving into employment, and improves their prospects of staying and progressing in work.

³ *The New Deal for Young People: implication for employment and the public finances*, NIESR, December 2000.

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

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

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

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

⁸ *ibid*

⁹ The first stage of the New Deal for young people.

4.15 One way of improving the New Deal's performance is to examine and focus on its most successful elements. 'Subsidised Employment' is by far the most successful New Deal option. Participation in this option has, however, been declining over recent years, while that of a less effective option – Full Time Education and Training (FTET) – has been rising. The Government will therefore test changes to NDYP that will improve performance of the education and training offered through the New Deal, and increase the proportion taking up more successful options.

The Government will therefore test the impact of:

- **restricting the choice of options for those who already have the basic level of skills needed to compete in the labour market; and**
- **enabling low-skilled NDYP participants to return to mainstream education and training leading towards a first level 2 qualification, ending the separate FTET provision procured by Jobcentre Plus.**

4.16 Running alongside these changes to New Deal itself, it is important to make sure that New Deal participants are able to access appropriate support once they move into work. The ease with which New Deal participants can enter Train to Gain is a key element in ensuring that the New Deal is not simply a gateway into a job, but a gateway into both work and training. **The Government will therefore develop and test measures to ensure that New Deal advisors and Train to Gain brokers together provide a seamless link from New Deal to in-work training.**

Working in partnership

Local employment partnerships **4.17** Effective design and operation of the New Deal needs real engagement from employers, to ensure that the support delivered provides the long-term unemployed and the economically inactive with the preparation and training that enables them to meet employers' expectations and requirements. Partnership working between Jobcentre Plus and employers at a local level is critical to making this happen.

4.18 **A number of large retail employers have agreed to work in partnership with Jobcentre Plus at a local level, to help the long-term unemployed and economically inactive back to work.** The signatory employers will encourage their managers to enter into a Local Employment Partnership with Jobcentre Plus. This Partnership agreement incorporates steps which employers will take to help Jobcentre Plus in supporting benefit claimants into work. These measures will include one or more of:

- offering two to four week work trials to a number of local benefit claimants;
- increasing the number of subsidised employment places available to New Deal participants;
- helping Jobcentre Plus and partners design pre-employment training programmes that meet employers' needs, and agreeing in turn to guarantee interviews or jobs to local benefit claimants who complete this training;
- encouraging their employees to volunteer to provide mentoring for long-term benefit claimants, to help prepare them for work; and
- review their application processes to ensure that local benefit claimants are not inadvertently excluded by, for example, requirements for qualifications or overly complicated procedures.

Benefiting from private and third sector expertise **4.19** Private sector and third sector organisations can bring a distinctive approach to service delivery based on their specialist knowledge, experience and skills. Jobcentre Plus already contracts out a significant proportion of its labour market provision, both in delivering mainstream programmes and in testing out different models of delivery; around a third of Jobcentre Plus expenditure is directed towards contracted-out provision.

4.20 Since 2000, the Government has been systematically testing the impact of opening up the design and delivery of labour market support to competition. Thirteen Employment Zones have been providing support to unemployed adults, to young people who have already been through the New Deal, and to lone parents. These sectors have also made a key contribution to the delivery of the New Deal for disabled people, Action Teams and Working Neighbourhood pilots.

4.21 Broadening the role of the private and third sectors in the provision of employment support opens up new opportunities, allowing Jobcentre Plus to target its own resources where these have the highest value added. For example, David Freud's report⁹ to the Department for Work and Pensions (DWP) proposed greater private and third sector involvement in service delivery, using outcome-based contracts.

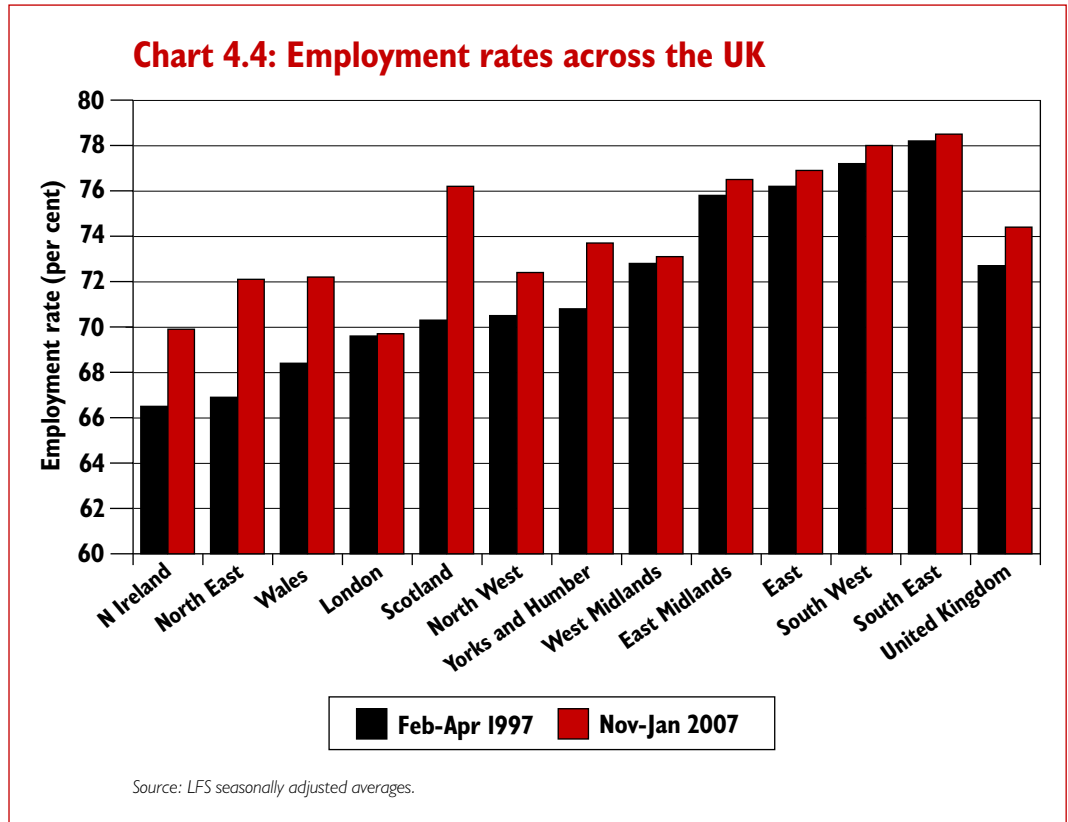
Flexibility and regional performance

4.22 Delivery of welfare to work support through Jobcentre Plus needs to combine a standard and appropriate level of service for everyone, with sufficient flexibility to enable local managers and front line staff to direct support where it is most needed. Effective delivery needs also to take account of the different needs and opportunities in local and regional labour markets, including making best use of local delivery partners' resources in delivering the more holistic, intensive support necessary to help the most disadvantaged claimants into work.

Labour market flexibility **4.23** Flexibility describes the capacity of individuals, firms and markets to respond to economic change efficiently and quickly. Labour market flexibility is central to the performance of the UK economy; a more flexible and efficient labour market has the ability to adapt more rapidly, allowing shocks to be accommodated and their costs in terms of lost output and jobs, minimised. The Government's labour market policies ensure that flexibility goes hand in hand with fairness, providing security and support so that people can cope with change. The progress the Government has made in promoting labour market flexibility and helping achieve economic stability is outlined throughout this chapter.

Regional performance and London **4.24** The benefits of improved labour market performance have been spread widely across the country. In every region, as Chart 4.4 shows, employment rates today are higher than in 1997. As Chart 4.4 also demonstrates, the employment rate in London is below that of all other UK regions and has shown the least improvement since 1997. The reasons for this are considered in *Employment opportunity for all: tackling worklessness in London*, published today and summarised in Box 4.2 below.

⁹ *Reducing dependency, increasing opportunity; options for the future of welfare to work. An independent report to the Department for Work and Pensions, David Freud. 5 March 2007.*



Box 4.2 Employment opportunity for all: tackling worklessness in London

There has been strong growth in the number of jobs and in the level of employment in London since 1997. However, at just under 70 per cent, London's employment rate is lower than both the national rate and that of every other UK country and region, and child poverty rates are higher than other regions (on an after housing costs measure). Many Londoners are not sharing the gains generated by the capital's economic strength.

Economic growth provides the essential foundation to address poverty and worklessness. The challenge for government at all levels – national, city and local, working with relevant partners – is to combine this economic strength with greater economic inclusiveness. To this end, *Employment opportunity for all: tackling worklessness in London*, published today sets out to inform the analysis of the issues and help in developing a consensus around the necessary steps towards meeting it.

The issues identified by the report are that a relatively large share of London's population is disadvantaged in the labour market by their individual circumstances; that there is strong competition for lower-skilled jobs in London's labour market, which reduces employment chances both for low skilled people in general, but also for young people and mothers; and that parental employment rates in London are low underpinning relatively high rates of child poverty in the capital.

The document makes recommendations as to the areas where future policy should be directed to meet these challenges:

- first, the **labour market**: there should be an explicit focus on policies to relieve the congestion in London's low-skilled labour market that reduces the employment chances of many Londoners.
- second, **employment programmes**: a more strategic London-wide approach to identifying the most appropriate solutions to the capital's problems is required, alongside sufficient operational flexibility at the appropriate levels to implement these approaches effectively but systematically; and
- third, **parents**: in line with the findings of the Harker Report,^a policies should have a clearer focus on the employment needs of parents in London, including efforts to improve further the functioning of the childcare market.

Local autonomy is important to allow the flexibility to address area specific problems. A strategic London-wide approach, bringing together all levels of government and other partners, is important to coordinate policy in line with the recommendations in the document. The institutional arrangements that would be best suited to implementing these changes should now be considered.

^a *Delivering on Child Poverty: What would it take?* Lisa Harker, November 2006.

Cities Strategy 4.25 As *Employment opportunity for all: tackling worklessness in London* shows, many cities have lower employment rates than their surrounding regions. Addressing the localised pockets of worklessness found in many cities requires strategic coordination and joined up working across a range of agencies and employers. Under DWP's Cities Strategy, local partners (including local authorities, private businesses, third sector organisations, Jobcentre Plus, and the Learning and Skills Council) have formed consortia in 15 cities or city regions. These consortia are pooling funding streams and rationalising and joining up services, and together control over £42m with which to commission services tailored to meet local needs. They are working with Jobcentre Plus to ensure best use is made of the flexibilities available to Personal Advisers to provide tailored support to individuals.

4.26 Cities Strategy consortia will focus on disadvantaged groups such as lone parents and incapacity benefit claimants. For those with the greatest barriers to work, such as people with drug or alcohol dependency, closer working between the key partners can be even more important, and the experience of the Cities Strategy will provide important information on how this can be achieved.

4.27 Individuals should be able to receive a personalised service that meets their specific needs, but which operates to high quality standards and is joined up across the public sector. Where appropriate, this may entail pooled funding streams to deliver services that cross traditional organisational boundaries, such as employment, skills and health, and the scope for this will be explored as part of the Comprehensive Spending Review process.

EXTENDING EMPLOYMENT OPPORTUNITY TO ALL

Lone parents

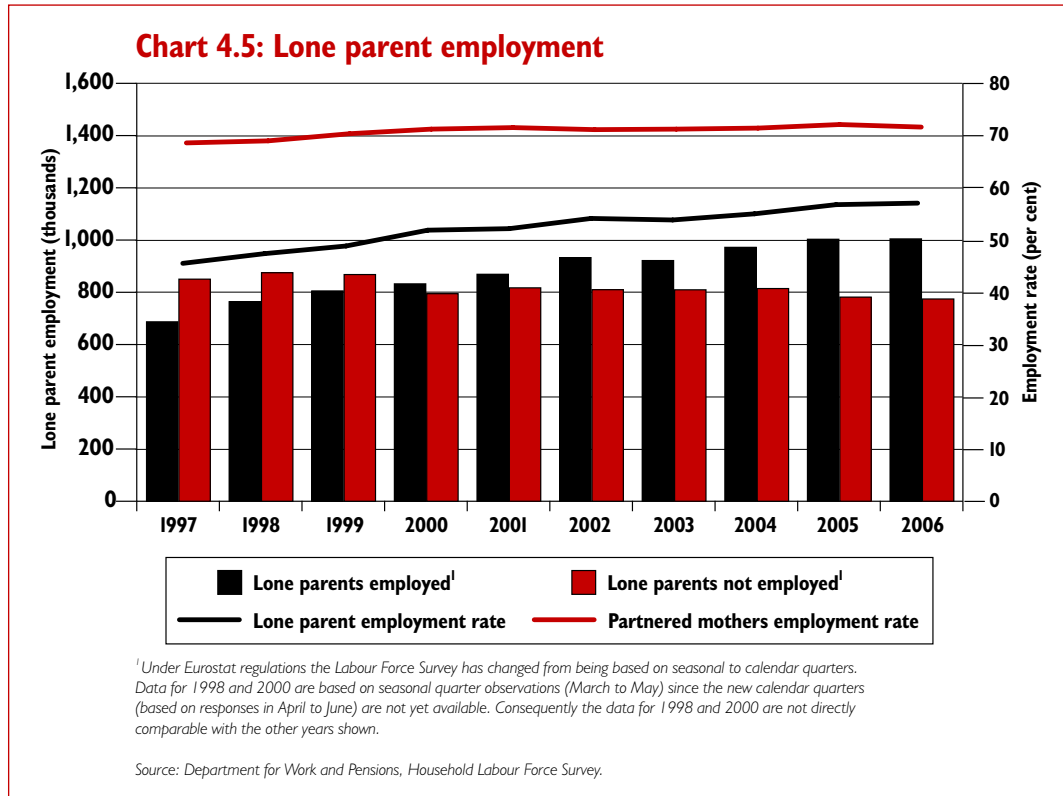
Lone parent employment 4.28 The Government is committed to the eradication of child poverty by 2020, a key cause of which is adult worklessness. Although there are now 440,000 fewer children in workless households than in 1997, there are still 1.7 million children living in households where no one works. Of those children living in a workless households, 68 per cent live in a lone parent household. A move into employment is the best route out of poverty for individuals and their children, and the best means of improving an individual's life chances.

4.29 The Government's support for lone parents focuses on ensuring that work pays, that barriers to employment are addressed and that lone parents are made aware – in particular, through Work-Focused Interviews (WFIs) with skilled Personal Advisers – of the employment opportunities available to them. The New Deal for lone parents (NDLP) has so far helped over 480,000 lone parents into work, with independent evaluation suggesting that participating in NDLP doubles an individual's chances of finding employment.¹⁰

4.30 There are now over 1 million lone parents in work – over 310,000 more than in 1997; and, as Chart 4.5 shows, the lone parent employment rate has increased by 11.8 percentage points to 56.5 per cent. Since spring 1997, the gap in the employment rates of lone parents and partnered mothers has narrowed from 23.6 to 14.9 percentage points.¹¹

¹⁰ *New Deal for lone parents: Second synthesis report of the national evaluation*, Department for Work and Pensions, June 2003.

¹¹ Under Eurostat regulations the Labour Force Survey has changed from being based on seasonal quarters to calendar quarters. Some figures have therefore changed from those published in Pre-Budget Report 2006 (See Chart 4.5 for details).



New Deal Plus for lone parents 4.31 The New Deal Plus for lone parents (NDLP+) pilots are testing the impact of a wide-ranging, coherent package of support to lone parents including enhanced adviser support, financial incentives, initiatives such as childcare ‘tasters’ that aim to reassure parents of the benefits of formal childcare provision, and events to build personal confidence. Introduced in 2005, the NDLP+ pilots were extended to two further Jobcentre Plus districts in Scotland and Wales¹² from October 2006; and in their existing five locations¹³ for a further two years to 2008.

Skills and retention 4.32 While the probability of lone parents leaving work has fallen from 14 per cent in 1992 to around 10 per cent in 2003,¹⁴ lone parents are still more likely to leave their job than are non-lone parents and single childless women.

4.33 Since April 2004, the Government has piloted the In-Work Credit (IWC); a £40 per 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 IWC provides a clear financial benefit from a move into employment and is helping lone parents move away from benefit dependency. **To provide further help to lone parents to stay in employment, this Budget announces that the IWC will continue to be available to eligible lone parents in the current pilot areas until June 2008, benefiting over 250,000 lone parents. This Budget also announces that, to address the higher costs of living in London and the consequently reduced returns to work, the IWC will be offered in London at a higher rate of £60.**

4.34 In five areas, lone parents receive support through Employment Zones rather than NDLP.¹⁵ Employment Zone providers are incentivised to help both unemployed and lone parent clients into work within a specific time period. While, for most lone parents, help to find work as soon as possible is the most appropriate approach, some may be further from

¹² Edinburgh, Lothian and Borders, and the former Cardiff and Vale sites within the new SE Wales district.

¹³ Leicestershire, Bradford, London South East, North London, Dudley and Sandwell.

¹⁴ Lone parents cycling between work and benefits, DWP research report 217, September 2004.

¹⁵ Tower Hamlets and Newham, Brent and Haringey, Southwark.

the labour market and need longer periods of training in order to develop the skills and confidence to move back into work. The Government will explore ways of encouraging Employment Zone providers to improve lone parent skills.

4.35 The Government recently announced¹⁶ steps to meet commitments made in response to the Women and Work Commission recommendations,¹⁷ including: a £500,000 programme to increase the availability of quality, part-time work; an exemplar employer initiative in which employers give a commitment to reduce the gender pay gap; and £10 million for the Women and Work Sector Pathways initiative to support innovative ways of helping women advance in their careers. Progress will be published in a report to mark the first anniversary of the Women and Work Commission's findings.

Rights and responsibilities **4.36** The Government has significantly improved support for lone parents since 1997, and continues to develop employee rights in the workplace. Flexible working practices are increasingly being adopted, and maternity pay and child benefits have been increased. From April 2005, the Government introduced new reforms to encourage employer supported childcare. These reforms, and the ten-year strategy for childcare¹⁸ which aims to provide high-quality, affordable childcare for all parents who need it, provide the opportunity better to balance work and family life.

4.37 Childcare Partnership Managers act as a focal point in each Jobcentre Plus district for the resolution of childcare issues and provide Personal Advisers with information about local childcare and Sure Start programmes. Links with Children's Centres are continuing to be developed, and the Childcare Act 2006 introduced a new duty for local authorities to work with childcare providers to secure sufficient childcare supply in their area. To ensure that lone parents are fully informed of the help and support available to them, the Government is increasing the frequency of compulsory WFIs for those who have been on Income Support for at least a year to a minimum of once every 6 months, from April 2007.¹⁹

Couple parents

4.38 Partners of benefit claimants have, since 2004, been able to access a similar level of support to that provided to lone parents through a targeted WFI regime and the relaunched New Deal for partners (NDP). This programme provides support and encouragement to partners of benefit claimants to acquire the skills and confidence they need to move into work. Since April 2004, over 4,300 job entries have been recorded for partners who have either attended a WFI or joined NDP. The Government is reviewing the system of work-focused support available to partners of benefit claimants and couple parents.

4.39 The ability to speak English can be an important step towards finding work; for parents, not being able to speak English increases the chances their children will be in poverty. Around a fifth of Londoners do not speak English as a first language, and 40 per cent of London's workless parents have English as a second language.²⁰ **This Budget announces that the Government will trial short, work-focused approaches to provide training in English as a second or other language (ESOL) in the London Cities Strategy pathfinders for parents on benefits or tax credits.**

¹⁶ *Government Action Plan: Implementing the Women and Work Commission recommendations*, September 2006.

¹⁷ *Shaping a Fairer Future*, February 2006, Women and Work Commission.

¹⁸ Published alongside the 2004 Pre-Budget Report.

¹⁹ As announced in Budget 2006.

²⁰ *A Profile of Londoners by Language: An analysis of Labour Force Survey data on first language*, L. Spence, Data Management and Analysis Group 2006/26, Greater London Authority, September 2006.

People with a health condition or disability

4.40 Of the nearly 5.6 million people of working age with a disability, only around half are in employment. Ensuring that many more are able to take up the opportunity to work is central to extending employment opportunity to all.

Growth in incapacity benefit claims

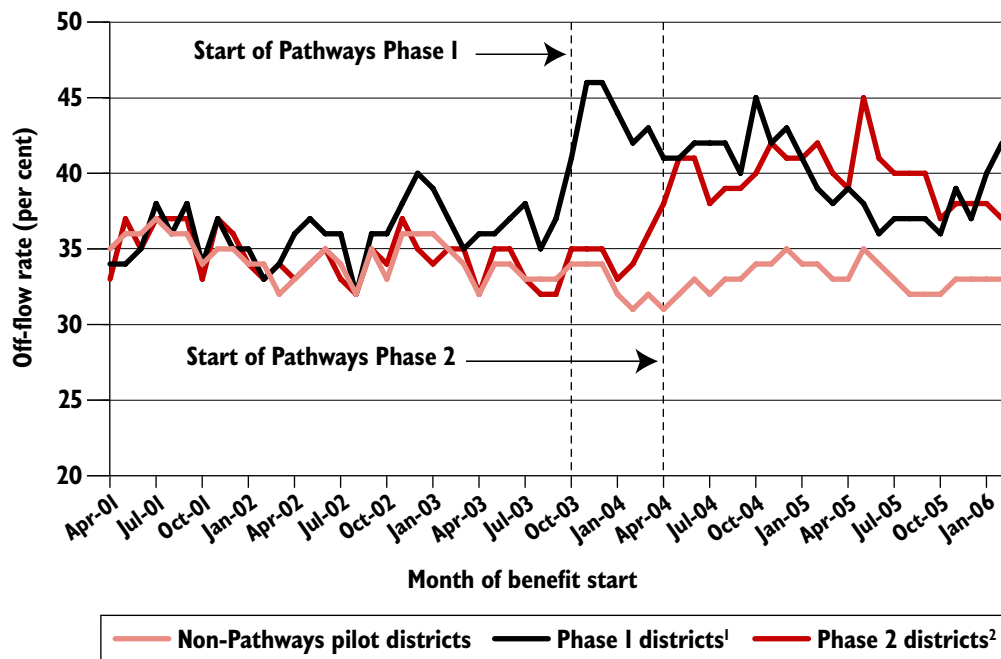
4.41 During the 1980s and early 1990s, the welfare system did little to support people with a health condition or disability back to work. As a result, many drifted into long-term benefit receipt, despite the fact that as many as 90 per cent of people expect to return to work when they start a claim for incapacity benefits. As a consequence, the number of incapacity benefits claimants²¹ in the UK more than trebled between the early 1980s and mid 1990s, despite improvements in general health and life expectancy.

Support for a return to work

4.42 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 to plan their return to work, through, for example:

- access to early and ongoing work-focused advice from Jobcentre Plus;
- help with identifying and moving into employment. By August 2006, the New Deal for Disabled People (NDDP) had found over 152,000 jobs for people with a health condition or disability;
- steps to tackle discrimination through the Disability Discrimination Act 2005, and improved opportunities to participate in society, as discussed in Chapter 5; and
- measures to ensure that work pays through the Working Tax Credit and National Minimum Wage.

Chart 4.6: Six month off-flows from incapacity benefits



¹The three phase 1 districts are: Bridgend, Rhondda, Cynon and Taff, Renfrewshire, Inverclyde, Argyll and Bute, and Derbyshire.

²The four phase 2 districts are: East Lancashire, Essex, Gateshead and South Tyneside, and Somerset.

Source: Department for Work and Pensions.

²¹ The current system of incapacity benefits includes: Incapacity Benefit, Income Support on the grounds of incapacity, and Severe Disablement Allowance.

Pathways 4.43 The Government's Pathways to Work 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 Organisation for Economic Co-operation and Development has described Pathways to Work as a "considerable success",²² and this is demonstrated by:

- a significant increase in flows off incapacity benefits after six months of a claim (Chart 4.6).²³ Independent evaluation by the Institute for Fiscal Studies²⁴ found, ten and a half months after an initial enquiry to claim benefits, an eight percentage points increase in people leaving benefits in Pathways areas compared to matched non-Pathways areas;
- over 26,500 job entries through the Pathways to Work pilots by June 2006;
- around 21 per cent of claimants taking up elements of the Choices package²⁵ following their initial WFI, with over 12,500 referrals to the new Condition Management Programmes; and
- one in fifteen participants being longer-term claimants who are not required to participate in the programme, but wish to do so. In February 2005, the Government extended a mandatory WFI regime to some existing claimants, alongside a new Job Preparation Premium of £20 per week to encourage steps towards finding work.

4.44 These reforms have started to change attitudes and expectations. 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 at 2.68 million, the total number of incapacity benefits claimants in August 2006 was over 40,000 lower than the previous year. The incapacity benefits claimant rate is falling fastest in the regions where it was highest during the 1980s and 1990s, and the total number of claimants in Wales, the North East, the North West and Scotland has fallen by almost 100,000 in the last five years. Within a declining total, however, the average duration of claims has increased, and the composition changed (with a growing proportion of claimants citing a mental health condition as the primary cause of their incapacity). Notwithstanding recent and considerable success, there is more to be done to ensure that everyone receives the appropriate support.

Welfare Reform Bill 4.45 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. Building on this, the Welfare Reform Bill, presented to Parliament in July 2006, makes provision for a new integrated and simplified Employment and Support Allowance (ESA) to replace the current system of incapacity benefits for new claimants from 2008.

²² *Economic Survey of the United Kingdom*, OECD, 2005.

²³ 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.

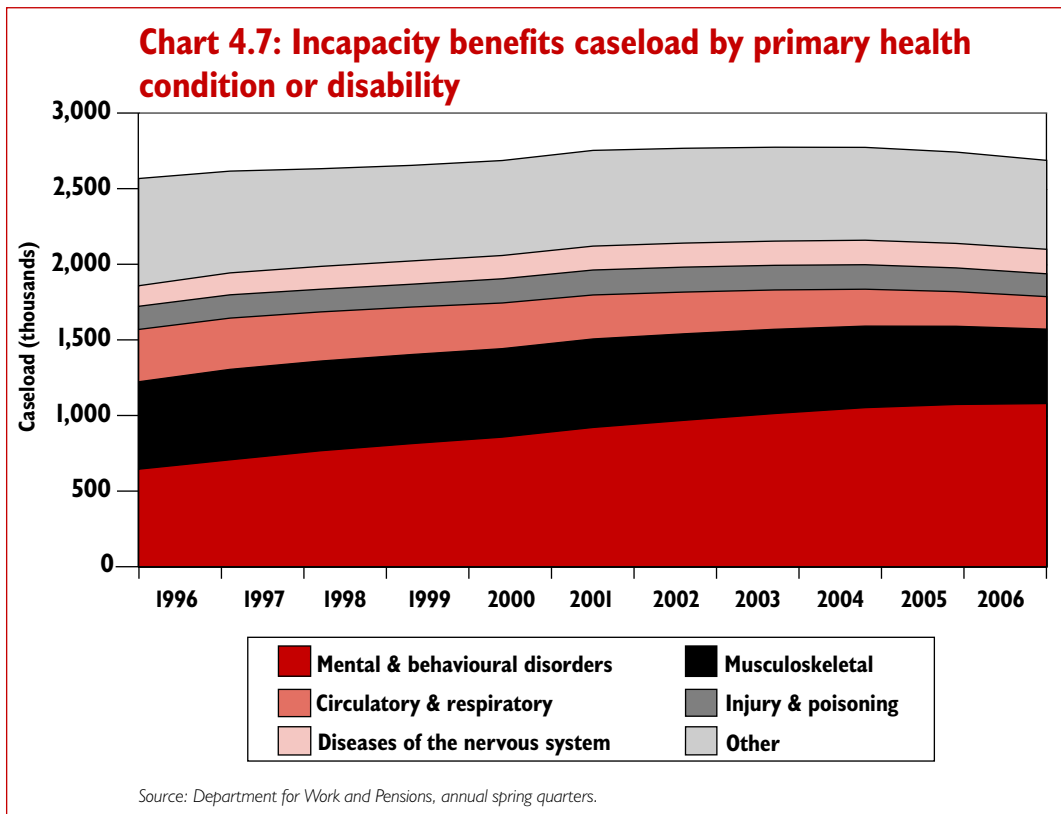
²⁴ *Early quantitative evidence on the impact of Pathways to Work pilots*, Institute of Fiscal Studies, on behalf of the Department for Work and Pensions, June 2006.

²⁵ The Choices package is a range of provision aimed at improving labour market readiness and opportunities. This includes NDDP and the Condition Management Programmes.

4.46 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 WFIs; 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 reformed to focus on what a person can, rather than cannot, do.

Mental health and employment

4.47 As Chart 4.7 shows, the number of incapacity benefits claimants citing mental health conditions as the primary cause of their incapacity has increased significantly over the last 10 years, from 645,000 in 1996 to over one million in 2006. To inform the 2007 Comprehensive Spending Review, Budget 2006 announced a review of the policies needed to improve mental health and employment outcomes. The review's consultations have identified the need for a holistic approach, set out in Box 4.3 below.



Box 4.3 Review of Mental Health and Employment Outcomes

Common mental health conditions, such as depression and anxiety, affect around 1 in 6 adults at any one time. As well as causing distress and reducing people's quality of life, such conditions can also adversely affect economic outcomes. While many people with common mental health conditions are employed, individuals in this group are in general, more likely to be unemployed or economically inactive than are those with good mental health; and unemployment, in turn, has been shown to be bad for mental health. Over 40 per cent of all incapacity benefits claimants report a mental health condition as their main health concern. Supporting people to manage their health condition and remain in, or move back into, work, is therefore key for health outcomes, and crucial to reducing the numbers on incapacity benefits. Budget 2006 announced a Review of the policies needed to improve mental health and employment outcomes.

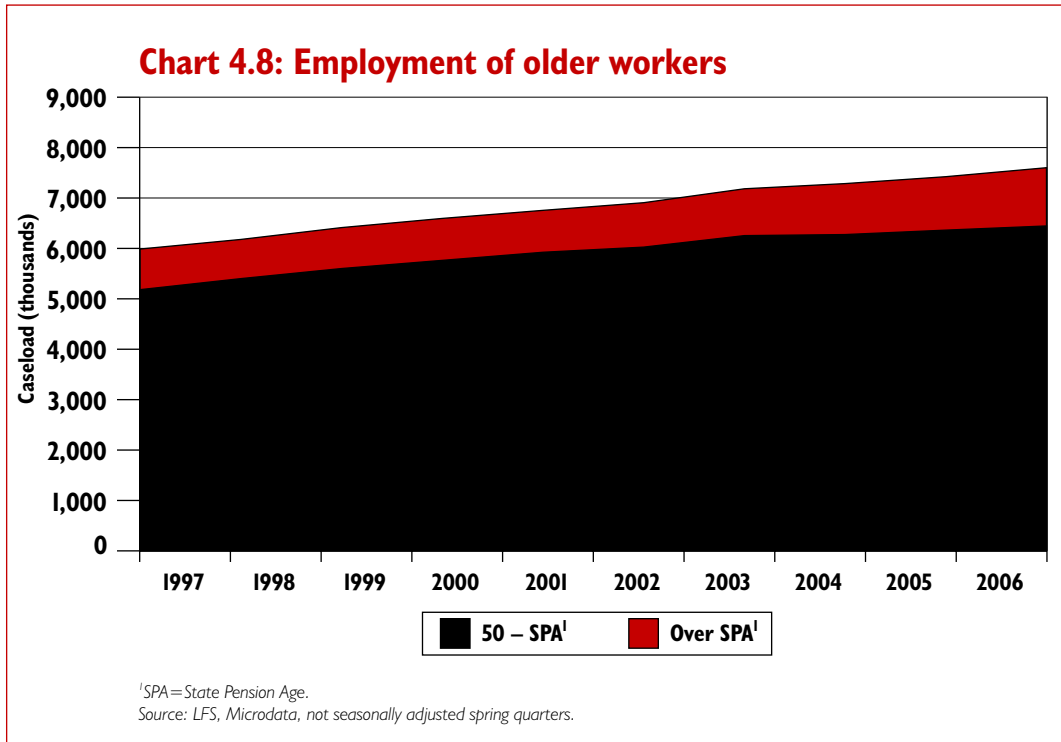
The Review is considering options for the way that people with a mental health condition are supported and treated. The consultations have identified the need for a holistic approach that changes the way common mental health concerns are addressed across the spectrum. To best achieve this, the Review has found four key groups that are important in helping those with mental health conditions realise their full potential in the labour market:

- **employers** currently employ 4 million people with a common mental health condition, and many employers have strong programmes that help people to manage their condition and stay in work, such as addressing stress and encouraging flexible working;
- **GPs** are trusted by people with mental health conditions and are often a first point for those seeking help and advice. Many GPs recognise that employment is an effective part of the rehabilitation process;
- many **individuals** do not even seek treatment, and of those that do, not all receive the most modern effective treatments; and
- the role of **employment programmes and the benefit system**; prolonged periods out of work can worsen mental health. Pathways to Work and the Condition Management Programme are showing promising signs of improving employment outcomes for those on incapacity benefits; however there may be even more that we can do for long term or repeat benefit claimants with common mental health conditions.

The Review will report as part of the 2007 Comprehensive Spending Review.

Older workers

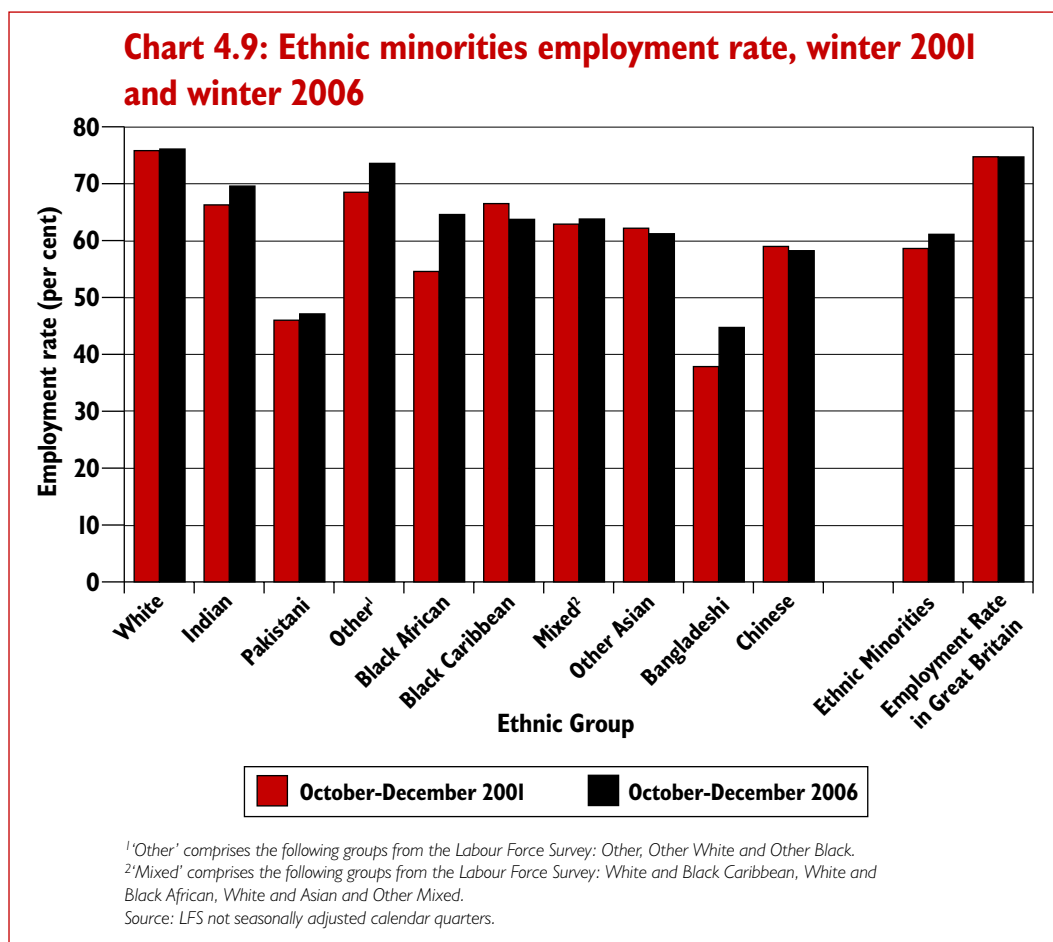
4.48 The Government is committed to ensuring that everyone who wishes to extend his or her working life should have the opportunity to do so. Not only is this important to the Government's long-term aspiration of an employment rate equivalent to 80 per cent of the working age population, but evidence also suggests that remaining in work can increase social inclusion and improve health. In line with the European Employment Directive, the Government introduced legislation in October 2006 to outlaw 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 aged over 50.



4.49 These measures have, in a strong and stable economy, delivered impressive results. Since 1997, the employment rate of people aged between 50 and State Pension Age has risen from below 65 per cent to over 70 per cent. Furthermore, there are now more than 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.

Ethnic Minority Groups

4.50 The employment rate for people from ethnic minority groups rose to over 60 per cent in October-December 2006 and, as Chart 4.9 illustrates, the gap between it and the overall national employment rate has narrowed. The chart also shows, however, the diversity of labour market outcomes across different ethnic minority groups. The employment rate for women of Pakistani origin is, for example, 26.2 per cent, and for women of Bangladeshi origin, 26.0 per cent. This compares with an average employment rate for women from other ethnic minority groups of 52.1 per cent, and a national female employment rate of 70.1 per cent.



Partners Outreach 4.51 DWP employment programmes have helped people from ethnic minority groups into over 245,000 jobs. In the 2005 Pre-Budget Report the Government announced new private and third sector led employment outreach services to help partners of people on low income, who were neither working nor on benefit. Partners Outreach provision is located in deprived areas with high ethnic minority group populations in Birmingham, Bradford, Leicester, Leeds, London and Manchester.

Business Commission 4.52 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 on Race Equality in the Workplace, chaired by Gordon Pell, will publish its final report in the summer.

Young People Not in Education, Training or Employment

4.53 Around 850,000 18-24 year olds are not in education, employment or training (NEETs). For many, this is a short-lived experience; some 25 per cent of NEETs move into education or employment within three months. Others (around 100,000) are living with their partner and looking after young children. Of the remainder, the large majority are claiming benefits, and receive work-focused support through Jobcentre Plus.

4.54 There are, however, a small number of people who are not receiving support through Jobcentre Plus and who have been NEET for over six months, and have no visible means of support. These individuals are at risk of long-term detachment from the labour market. Voluntary activity, supported through organisations such as the youth volunteering charity V,

can provide an important stepping-stone from inactivity to employment. The London Development Agency, through its Pre-Volunteering Programme for the 2012 London Games, will also be taking steps to help these disadvantaged young people participate. Chapter 5 announces Activity Agreements for 16-17 year old NEETs in receipt of JSA (severe hardship).

BENEFIT REFORM

Reforming Housing Benefit

Housing Benefit reform 4.55 Over four million low income tenants receive help with their rent costs from Housing Benefit (HB). It is important that HB claims are dealt with quickly and accurately, as this influences the mobility and employment choices of claimants. The Government is therefore continuing to reform HB through administrative improvements, structural reform, and steps to streamline and aligning benefits.

Administrative improvements 4.56 Government investment in local authorities' IT 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 HB claim. By the third quarter of 2006-07 this had been reduced to an average of 34 days, with the 60 worst performing local authorities reducing processing time by an average of 44 days.

4.57 The Government is keen to ensure both that tenants continue to receive appropriate levels of HB, and that fraud and error in the administration of the benefit is reduced. Building on the considerable investment already made in this area, **the Government is investing in further IT development to: improve information gathering processes in Jobcentre Plus and The Pension Service; develop enhanced data links between DWP and local authorities; and extend the collection of fraud and error data.**

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

4.59 **The Government intends to work closely with local authorities on future structural changes to HB arrangements for temporary accommodation.** Identifying and separating out reasonable costs for the rent and management of temporary accommodation will improve transparency and value for money. It will also contribute both to improved work incentives for tenants, and to the Government's 2010 target to reduce the number of households in temporary accommodation.

Benefit simplification

Improving benefit delivery and accuracy 4.58 Although the vast majority of benefits (just under 98 per cent) are paid correctly, the Government continues to explore ways of further simplifying the system and thereby reducing error further. **This Budget announces a package of alignment measures, which will streamline rules on: benefit payment periods; the backdating period for Disability Living Allowance and Attendance Allowance forms; the treatment of rental income; and termination payments.**

MAKING WORK PAY

4.61 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, thereby improving financial incentives to work and tackling poverty among working people.

The National Minimum Wage 4.62 The National Minimum Wage guarantees a fair minimum income from work. The Government has accepted the Low Pay Commission's recommendations to increase the adult rate to £5.52 per hour from October 2007. The youth rate, for workers aged between 18 to 21, will rise to £4.60, and the development rate for 16 and 17 year olds, to £3.40.

4.63 In the 2006 Pre-Budget Report, the Government announced that the resources devoted to National Minimum Wage enforcement would be increased by 50 per cent in order to raise standards of enforcement. This will come into force from April 2007.

The Working Tax Credit 4.64 The WTC provides financial support on top of earnings for households with low incomes. In December 2006, over 2.25 million families with children and over 323,000 households without children were benefiting from the WTC. Some 103,000 families benefited from the disabled workers element of WTC; over double the number who received support through its predecessor, the Disabled Person's Tax Credit.

4.65 The 2006 Pre-Budget Report announced, that in order to ensure that people claiming HB or Council Tax Benefit would gain from the increases in the rates of WTC, the earnings disregard in HB and Council Tax Benefit would be raised in line with inflation to £15.45. This will come into effect in April 2007.

Four-week run-on in WTC 4.66 From April 2007, HM Revenue & Customs will introduce a four-week run-on in entitlement to WTC from the day a claimant ceases to work over 16 hours. This will reduce the number and value of overpayments – occurring when people are late in reporting that they are no longer entitled to WTC. It also reflects the fact that, from this April, claimants are subject to a four-week mandatory reporting period when they cease work or have other changes of circumstances.

Increasing WTC threshold from April 2008 4.67 From April 2008 the income threshold below which WTC is received in full will increase by £1,200, to £6,420 per annum. This will be introduced alongside a wider package of reforms to the personal tax and tax credit system announced in Chapter 5, and will increase the gain to work for many low-income households.

Tackling the unemployment trap 4.68 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 move into work. 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 on moving into work, thereby reducing this problem.

Table 4.1: Weekly Minimum Income Guarantees (MIGs)

	April 1999	October 2007	April 2008 ²
Family ¹ with one child, full-time work	£182	£276	£290
Family ¹ with one child, part-time work	£136	£217	£225
Single person, 25 or over, full-time work	£113	£180	£186
Couple, no children, 25 or over, full-time work	£117	£212	£220
Single disabled person in full-time work	£139	£224	£228
Single disabled person in part-time work	£109	£165	£168

Assumes the prevailing rate of NMW and that the family is eligible for Family Credit/Disability Working Allowance and Working Tax Credit/Child Tax Credit. Full-time work is assumed to be 35 hours. Part-time work is assumed to be 16 hours.

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

² Projections are based on RPI and AEI growth taken from HM Treasury's economic forecast.

Tackling the poverty trap **4.69** The poverty trap occurs when those in work have little incentive to move up the earnings ladder because of only limited net gains. 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.

4.70 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 face MDRs in excess of 70 per cent now than in April 1997. The increase in the number of households facing MDRs of between 60 and 70 per cent is due primarily to the introduction of tax credits, which have extended financial support so that a larger number of families benefit, including low income working people without children.

4.71 It is important to note, however, that these figures do not take account of any likely behavioural changes caused by a rise in income (changes in, for example, labour market participation or hours worked). They also do not include the effect of the £25,000 disregard in tax credits, which allows income to rise between one year and the next by up to this amount before tax credits begin to be withdrawn. This means that the actual marginal deduction rates for many families will in practice be significantly lower, at least in the first year.

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 percent	5,000	0
Over 90 percent	130,000	50,000
Over 80 percent	300,000	170,000
Over 70 percent	740,000	210,000
Over 60 percent	760,000	1,680,000

¹ Marginal 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 claiming the disabled worker element of WTC.

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

Box 4.4: The effect of Government reforms on marginal deduction rates.

Chart (a) shows marginal deduction rates (MDRs) by gross income for a lone parent with two children under the 2007-08 and indexed 1997-98 tax and benefit systems, assuming the National Minimum Wage rate. Consistent with Table 4.2, this shows a reduced MDR at low income levels, reflecting the lower withdrawal rate of in-work support under tax credits, but with withdrawal of support now extending further up the income scale, due to now more generous support overall. This pattern is typical for single earner families with children.

**Box 4.3
Marginal Deduction Rates**

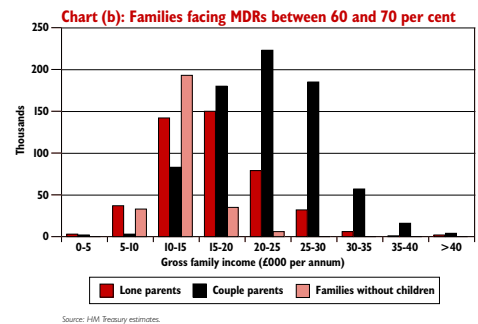
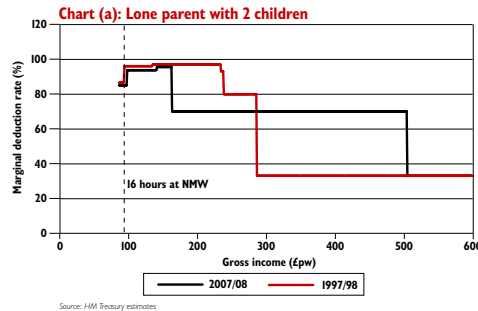


Chart (b) shows the distribution of those families likely to be facing MDRs of 60 to 70 per cent in 2007-08, by gross income and family type. Most of these families face an MDR of around 70 per cent, reflecting basic rate income tax and employee NICs combined with the withdrawal rate for tax credits. The characteristics of this group are typical of tax credit claimants: over 80 per cent have children, and three quarters have gross incomes between £10,000 and £25,000. The changes to income tax and tax credits announced in this Budget do not materially affect these conclusions.

MDRs suffer a number of limitations that make interpretation difficult. They ignore some key features of the tax and benefit system, such as the effect of the £25,000 disregard in tax credits, which allows people to increase their income without having their tax credits withdrawn. They also look at very small changes in income; in reality, changes in income are larger and can move people off the tax credit taper or bring them into eligibility for additional support (through, for example, the 30 hours element). This means that it may be more useful to look at empirical studies.

A number of published studies have assessed the labour market impacts of the Government’s tax and benefit reforms.^a These studies suggest that the reforms have increased the lone parent employment rate by around 5 percentage points. They provide no evidence of any reduction in hours worked for working parents. In fact, average hours are estimated to have risen for lone mothers, perhaps reflecting enhanced incentives to cross 16 and 30 hour tax credit thresholds.

Evidence on incentives to acquire skills or move into better paid jobs is less comprehensive, but one study^b argues that the impacts are not clear-cut. To the extent that workers pay for general training through lower wages, higher MDRs also mitigate such costs. This study finds an increase in short-term wage growth for those groups facing increased MDRs under tax credits.

^aAn overview of these studies is provided in Brewer, M. and Browne, J. (2006), The effect of the Working Families’ Tax Credit on labour market participation, IFS Briefing Note No. 69.

^bLydon, R. and Walker, I. (2005), Welfare-to-work, wages and wage growth, Fiscal Studies, Vol. 26, No. 3.

FUNDING FOR WELFARE FOR WORK

4.72 The welfare to work programme is delivered by DWP. Originally funded by the Windfall Tax on the excess profits of the privatised utilities, the programme has since 2003-04 been funded from resources allocated to DWP through the spending review process as the Windfall Tax receipts have been exhausted. Table 4.3 sets out that element of the welfare to work programme, and other programmes, funded from the Windfall Tax. Further detail of expenditure on welfare to work programmes can be found in the DWP Departmental Report.

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	2005-06	TOTAL
Spending by programme¹										
New Deal for young people ³	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 ⁴	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 ⁵	0	20	10	5	0	0	0	0	0	35
University for Industry ⁶	0	5	0	0	0	0	0	0	0	5
Workforce development ⁷	0	0	0	0	0	40	50	150	80	320
ONE pilots ⁸	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 Expenditure⁹	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 Includes funding for the Innovation Fund.

⁴ Includes £10 million in 1999-2000, 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 to October 1999, after which the measure was incorporated within the Working Families' Tax Credit.

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

⁷ Includes £219 million funding for Employer Training Pilots.

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

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