

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 enable them to find employment and develop skills. This chapter describes the further steps the Government is taking to move towards its aim of employment opportunity for all, including:

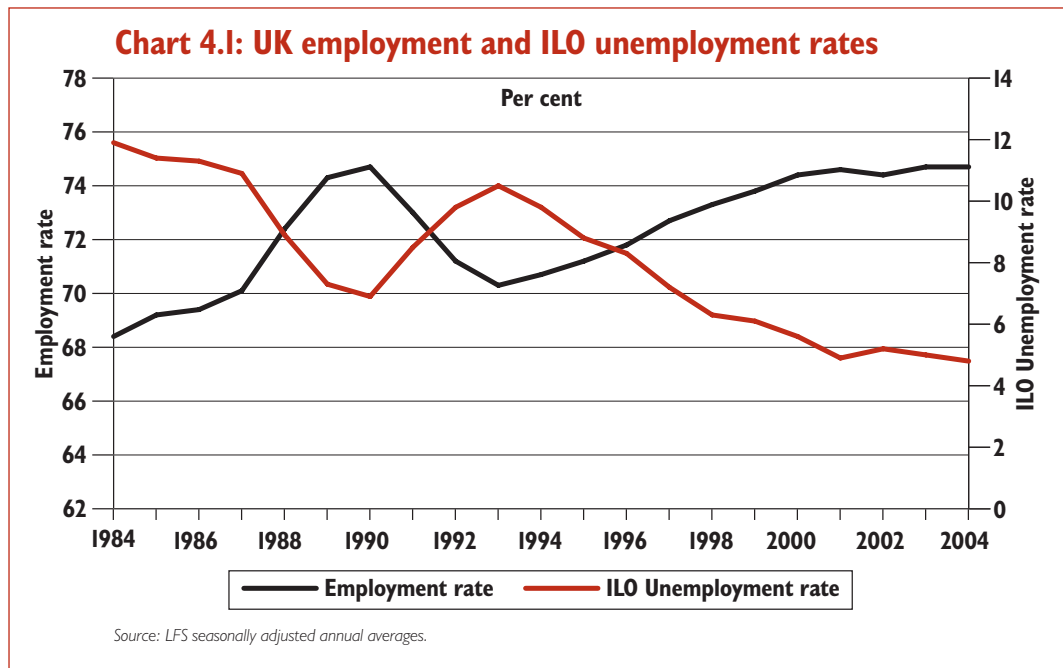
- **improvements to incapacity benefits linking rules**, including an automatic guarantee of entitlement to the rules on a move into employment; a single, extended linking rules period of 104 weeks; and immediate re-qualification for the rules on a return to benefit;
- following the Low Pay Commission's recommendations, **the adult rate of the National Minimum Wage will rise to £5.05 per hour from October 2005 and £5.35 from October 2006**;
- **examining the scope for improving Jobseeker's Allowance sanctions and the potential for a fixed fines system**, to maintain an effective balance between rights and responsibilities by improving the capacity to respond swiftly and effectively in cases of non-compliance;
- **supporting young people not in education, employment or training**, details are set out in Chapter 5;
- **accepting the recommendations of the National Employment Panel's report on measures to promote employment and small business growth for ethnic and faith minorities. The Government will develop proposals for implementing these recommendations, including the establishment of Centres of Vocational Excellence in Entrepreneurship**;
- **a package of measures to help simplify and improve Housing and Council Tax Benefit** by making further improvements in administration; and
- **improving IT links between local authorities and the Department for Work and Pensions** to allow faster and more accurate processing of Housing Benefit claims.

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. This Budget sets out action to build on this strength and tackle the long-term challenges of increasing flexibility, reducing inactivity and helping those groups in society facing particular barriers to work and skills development.

Labour market challenges

4.2 The unemployment rate peaked at almost 12 per cent in the 1980s and again at nearly 11 per cent in the early 1990s, with over 3 million unemployed on both occasions. By the mid 1990s, as Chart 4.1 shows, unemployment had begun to fall. However, this headline improvement masked a set of structural changes in the labour market which were producing very unequal outcomes for working age households. Unemployment, although falling, had become much more concentrated, with some people experiencing much longer periods unemployed. Employment was falling for lone parents and couple mothers with a partner not in work, but rising for couple mothers with a working partner. Employment rates were low

among people with a health condition or disability, and ethnic minority groups. These trends contributed to an increasingly polarised distribution of work across households. The proportion of couple households with a single earner declined sharply, while the proportion of both workless households, and households in which both adults were in work, increased.



Recent labour market performance

4.3 The Government's labour market policies have contributed to ongoing improvements in headline employment and falls in unemployment, while also addressing the underlying weaknesses and inequalities within the labour market described above. As Chart 4.1 shows, UK unemployment, on the International Labour Organisation (ILO) definition, fell in the three months to December 2004 to 4.7 per cent – the lowest rate since summer 1975. The number of people in employment totalled a record 28.5 million, while the working age employment rate reached 74.9 per cent. On a comparable basis (people aged 15-64) the employment rate in the UK, at 71.7 per cent, is higher than that of both the EU (64.7 per cent for the EU15, or 63.2 per cent for the enlarged EU) and the US (71.3 per cent). Success at the national level has been reflected in progress in extending employment opportunity across all groups and regions. Employment rates have risen for lone parents, older workers, ethnic minorities, and people with a health condition or a disability, as well as in disadvantaged areas.

4.4 The Government is determined to build further on this strong performance. The Department for Work and Pensions (DWP) recently published a Five Year Strategy¹ setting out the Government's long term aspiration of an 80 per cent employment rate. As Box 4.1 describes, this is an ambitious aspiration which reflects the importance of a rising employment rate both to support an ageing society and to extend employment opportunity to all disadvantaged groups and areas.

¹ Department for Work and Pensions Five Year Strategy – Opportunity and security throughout life, Department for Work and Pensions, February 2005.

Box 4.1: Looking to the long term – an aspiration of an 80 per cent employment rate

The Government is committed to delivering employment opportunity for all. This is a challenging and ambitious objective, reinforced in the DWP's Five-Year Strategy which sets out a long-term aspiration of achieving and sustaining an 80 per cent employment rate.

The rise in employment over the past decade has reflected primarily a move out of unemployment into work. As is also clear, falling unemployment has not been a product of people moving from unemployment into inactivity. The inactivity rate, broadly stable over the decade, has declined by 0.3 percentage points since 1997. Given that the number of full time students has been rising (one of several compositional changes in inactivity, including a recent decline in the number registered as inactive due to illness or disability after strong increases in the 1980s and early 1990s), the fall in inactivity excluding students has been a more marked 0.9 percentage points.

Inactive individuals tend to be more detached from work than their unemployed counterparts. This does not, however, mean that they do not want to work. Offered appropriate tailored support, many who wish to work, find work, as demonstrated by rising employment rates among lone parents, older workers and people with health conditions and disabilities.

Reducing inactivity and raising employment is important on both economic and social grounds: in promoting a growing and enterprising economy; in reducing regional disparities in economic performance; in tackling poverty; in supporting those unable to work; in enabling everyone to fulfil their potential; and in meeting the challenge of an ageing society. An 80 per cent employment rate would virtually offset the projected rise in the UK dependency ratio (the ratio of non-workers to workers) between now and 2050; of benefit to future, as well as current, generations.

Realising this long-term aspiration will be achieved only on a platform of ongoing macroeconomic stability, and by building on the success of the welfare and education reforms already delivered. This will include extending the support offered by Jobcentre Plus and the New Deal; ensuring that no-one, whoever they are and wherever they live, is excluded from the labour market through disadvantage; bringing down still further, financial and other barriers to work; taking forward the child poverty agenda; and equipping people – both at school, and throughout their adult lives – with the skills they need to find, remain and progress in work.

The policy framework 4.5 The strong labour market performance of recent years has been based on a foundation of macroeconomic stability. Stability alone, however, cannot ensure employment opportunity for all. This also requires microeconomic reforms to improve the functioning and flexibility of the labour market, tackle structural unemployment, improve work incentives, and address the specific problems faced by particular groups or areas. The Government's policy framework underpinning its welfare to work agenda comprises:

- active labour market policies – tailored and appropriate help for those without work, to prevent long term detachment from the labour market;
- policies that make work pay – improved incentives through reform of the tax and benefit system, and the introduction of the National Minimum Wage; and

- policies that reduce barriers to work – including education, skills, childcare and training policies to create an adaptive, flexible and productive workforce.

Flexibility and fairness

4.6 Flexibility allows workers and businesses to adapt quickly and effectively to change and to seize opportunities in the global economy. In an increasingly open and integrated global economy, the countries that will prosper are those with flexible and outward-looking economies, which can react effectively to changing economic circumstances. Box 4.2 summarises the trends and progress in UK labour market flexibility since Budget 2004.

Box 4.2: Labour market flexibility – report on progress

A flexible and efficient labour market that creates jobs and raises productivity is central to economic growth in increasingly integrated global markets where investment and production can move quickly between countries. Labour market flexibility is, therefore, a key element of a globally competitive economy and central to the overall performance of the UK economy. If the UK were to join Economic Monetary Union (EMU), labour market flexibility would become even more important, as the adjustment burden on factor and price movements in response to addressing country-specific shocks would be much greater. Key new measures introduced since Budget 2004 to promote labour market flexibility include:

Developing skills: giving employers the opportunity to access free and flexibly delivered training for their low-skilled employees through a National Employer Training Programme; the New Deal for skills, with skills counselling in jobcentres, and a Learning Allowance to help benefit claimants access training; and continued reform of the financial support given to 16-19 year olds, including the introduction of a Child Benefit Bill which includes measures aimed at increasing the number of 19 year olds who are equipped with the skills they need to succeed.

Enhancing wage flexibility: ensuring Government evidence to the Pay Review Bodies referred to the sector's local recruitment and retention situation and examined the case for more geographically differentiated pay; and ensuring civil service departments explored the potential benefits of more local pay differentiation in the context of their relocation plans and as part of their pay and workforce strategies and pay remit business cases.

Improving labour market opportunities: to support more incapacity benefits claimants into work, an extension of the Government's Pathways to Work pilots to an additional 14 Jobcentre Plus districts, covering a third of the country; and to improve labour market opportunities for lone parents, an extension of the In-Work Credit pilots and extra support to improve the quality and affordability of childcare.

Promoting geographic mobility and economic migration: structural reform and administrative improvements to ensure Housing Benefit does not constrain the ability of the unemployed to find or take up work; and launching a five-year strategy for asylum and immigration, including a flexible points-based system to ensure that the UK attracts the migrants needed for the economy.

4.7 The Government believes that flexibility must go hand-in-hand with fairness. Its policies are designed to provide the security and support necessary to ensure that people are able to meet the challenges of economic change. Active labour market policies support people back into work, whether after a period of unemployment or of economic inactivity. The tax and benefit system, described in this chapter and in Chapter 5, provides security through financial

support for those who need it most, when they need it most. *Tax credits: reforming financial support for families*, published alongside the Budget, sets out the principles which underpin the Government's ongoing modernisation of the tax and benefit system, transforming it to promote a fair and inclusive society better able to rise to the opportunities and challenges of economic change. Flexible delivery is important in tackling specific barriers to work faced by local areas and individuals. It is important that national standards of service provision are upheld. However, the Government is committed to ensuring that service providers are given the flexibility to tailor policies to the specific needs of their communities.

4.8 This Budget builds on the steps the Government has previously taken by setting out new action and direction to make further progress towards the twin goals of greater flexibility and fairness. This chapter focuses on the challenge of reducing inactivity and helping those groups in society that face particular barriers to work.

DELIVERING EMPLOYMENT OPPORTUNITY TO ALL

4.9 The Government's active labour market strategy aims to provide everyone who is able to work with the support and skills they need to move into work as quickly as possible. The New Deal and other programmes provide intensive support to address barriers to work and to prevent the demoralisation and attrition of skills that often accompany long-term unemployment.

The New Deal 4.10 The New Deal has been fundamental to the success of the Government's labour market policies. Since its launch in 1998, over £3.6 billion has been invested in New Deal programmes. This has helped over 1.2 million people into work, including 535,000 young people and 200,000 unemployed adults. The New Deal has contributed to a fall in long-term unemployment of over three quarters since 1997, providing strong social, economic and fiscal benefits. The Government now spends £5 billion a year less on unemployment related benefits than in 1997. The New Deal has been particularly successful in tackling long term and youth unemployment. As Chart 4.2 shows, long-term youth unemployment fell to 39,100 in January 2005, despite the number of 16-24 year olds increasing by nearly half a million since 1997. The proportion of young people not in full-time education or employment has fallen from 17.8 per cent to 16.5 per cent. Chapter 5 sets out proposals for piloting a new Activity Agreement and Allowance for 16 to 17 year olds not in education, employment or training.

4.11 Studies have shown the New Deal's positive effect both in encouraging the longer-term unemployed to return to education, and in promoting work.² In 2000, the National Institute of Economic and Social Research (NIESR) concluded that, without the New Deal for young people (NDYP), the level of long-term unemployment would have been twice as high.³ More recent studies show that NDYP has significantly boosted exit rates from unemployment in all regions;⁴ that overall youth unemployment has been reduced by between 30,000 and 40,000;⁵ that young men are now 20 per cent more likely to find work as a result of the New Deal, and that the social benefits of NDYP outweigh the costs.⁶

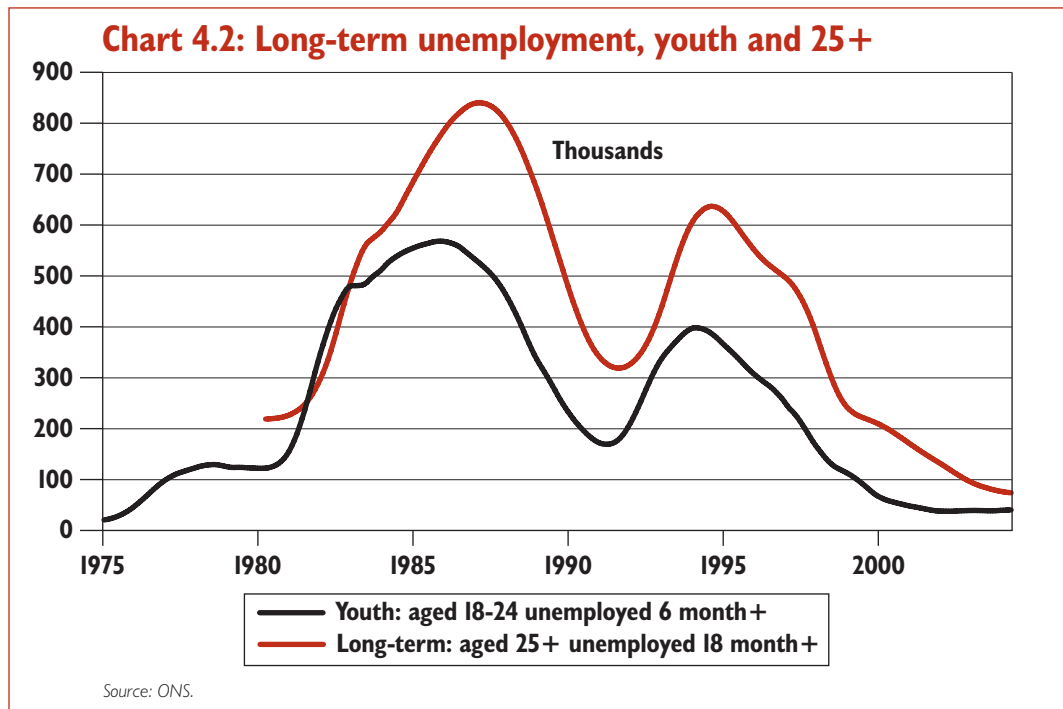
² *Into Jobs or into the Classroom: The UK New Deal for Young People*, McVicar, D and Podivinsky, J. Northern Ireland Economic Research Centre, April 2003.

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

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

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

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



Building on New Deal 4.12 The Government is committed to building on the success of the New Deal, and to using its investment in staff, processes and information systems to enable the development of more locally-diverse labour market support. *Building on New Deal: Local solutions meeting individual needs*, published by the DWP in June 2004, outlines proposals to give greater empowerment to local Jobcentre Plus staff, enhancing their ability to respond effectively to the needs of individuals and to challenges in their area.

Jobcentre Plus 4.13 Jobcentre Plus was launched in April 2002, delivering, for the first time, an active, work-focused service to all benefit claimants of working age, helping unemployed and economically inactive people move closer to the labour market and search effectively for work. The nationwide rollout of this new business model – due to be completed in 2006 – represents a £2.2 billion investment in improved service and efficiency.

EXTENDING EMPLOYMENT OPPORTUNITY TO ALL

4.14 In recent years, rising employment and falling worklessness have been seen across the UK labour market, including among those groups and regions which have generally been the most disadvantaged in labour market terms. This section sets out progress – and the challenges remaining – in extending employment opportunity to everyone, whatever their circumstances and wherever they live.

People with a health condition or disability

4.15 In the last decades of the twentieth century, many people in the UK were adversely affected by the changing structure of economic activity and macroeconomic instability. A significant number ended up needlessly on sickness and disability benefits where – rather than being supported by the welfare system back into work – they were, in many cases, effectively consigned to a lifetime on benefits. The number of incapacity benefits claimants in the UK reached 2.6 million in the mid-1990s.⁷

⁷Incapacity benefits include Incapacity Benefit, Income Support on the grounds of incapacity and Severe Disablement Allowance.

The Government's vision **4.16** A failure to tackle the barriers to work faced by incapacity benefits claimants – barriers which are not necessarily related to their health condition or disability – is a missed opportunity for the individuals themselves, their family and community, and the economy as a whole. The Government's vision is to deliver a fundamental change in the way that people with a health condition or disability, who want and are able to work, are given the support to find, remain and progress in employment. The Government believes that everyone who wants and is able to work should be helped and enabled to do so, maintaining a balance between rights and responsibilities. The Government has put in place support to ensure that more people with a health condition or disability are able to move into employment. In particular:

- Jobcentre Plus is providing early and ongoing support and, for the first time, new incapacity benefits claimants are required to attend a Work Focused Interview (WFI);
- the New Deal for disabled people (NDDP) is providing improved employment support and advice and has helped almost 55,000 disabled people into work since July 2001. In total, the Government's New Deal programmes have helped over 200,000 disabled people into work;
- the Working Tax Credit (WTC), together with the National Minimum Wage, is helping to ensure that work pays; and
- the Government has extended the scope and coverage of the Disability Discrimination Act to tackle discrimination in the workplace and beyond.

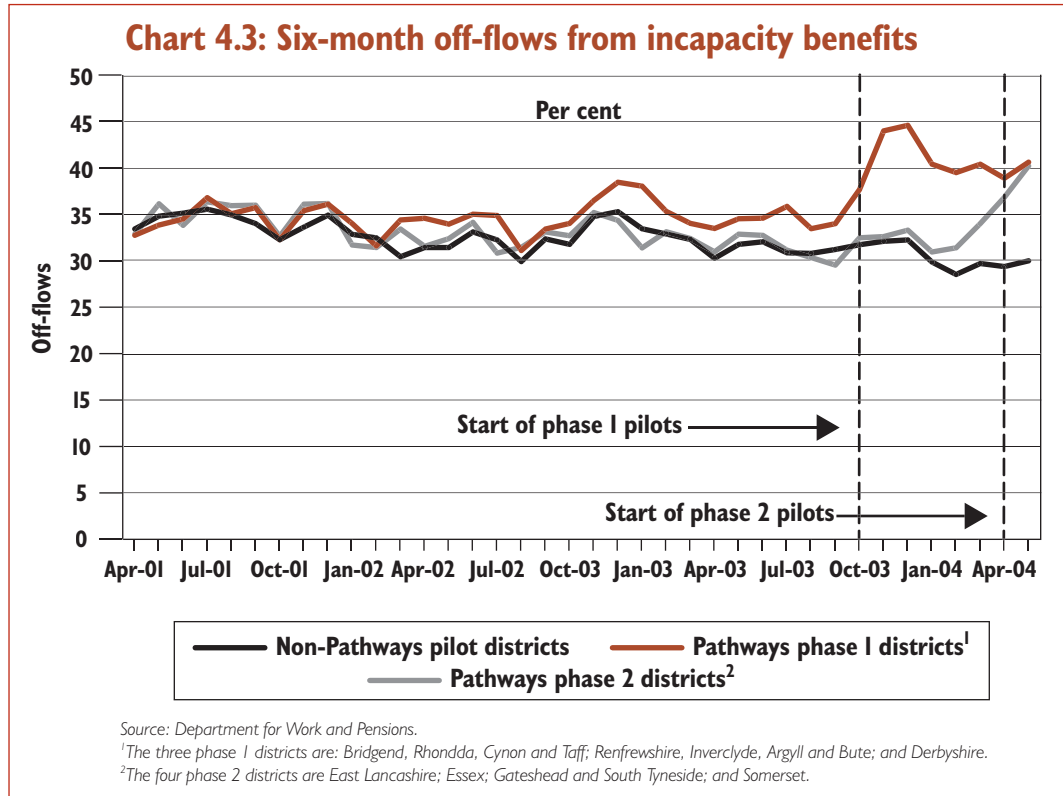
4.17 As a result of these and wider reforms, and in the context of a stable economy, more than half of disabled people in the UK are, for the first time, in employment, and the annual inflow to incapacity benefits has fallen by one-third since the mid 1990s. The overall number of incapacity benefits claimants has now stabilised, and the most recent data has shown a small fall.

Pathways to Work **4.18** Building on its investment in Jobcentre Plus and the New Deal, the Government is now testing a new system of support and advice – combining Jobcentre Plus, the health service and the voluntary and private sector – that has not previously been available to incapacity benefits claimants. These Pathways to Work pilots are testing a structured ongoing intervention regime. Early evidence from the pilots shows that the Pathways approach is significantly improving the work prospects of incapacity benefits claimants, in particular:

- there has been an increase of between 8 and 10 percentage points in off-flows from incapacity benefits after six months of a claim. This is illustrated in Chart 4.3,⁸ which shows the percentage of new claimants in a particular month who have left the benefit six months later;
- there have been over 10,700 Jobcentre Plus job entries through Pathways to Work up to December 2004 and the number of recorded job entries for people with a health condition or disability has almost doubled compared with the same period last year; and

⁸ The off-flow rates presented are produced from the Working Age Statistical Database (WASD). WASD does not include a proportion of short-term Incapacity Benefit claims; therefore the off-flows presented will be lower than actual rates. However, trends over time will be consistent.

- following the initial Work Focused Interview (WFI) at 8 weeks, over 20 per cent of claimants have taken up elements of the Choices package,⁹ with around 10 per cent of claimants joining NDDP. This compares with 4 per cent of claimants joining NDDP in Jobcentre Plus Pathfinder offices and 2 per cent nationally.



4.19 Around 10 per cent of participants in the pilots are longer-term claimants who have volunteered to take part after hearing about the support on offer. In February 2005, the Government improved the help available in the pilot districts by extending the mandatory work focused support at Jobcentre Plus to some existing claimants. This will be piloted alongside a new Job Preparation Premium – a payment of £20 per week to encourage steps towards finding work. Subject to evidence from this pilot, the Government will seek to broaden this approach to a further proportion of existing claimants, from April 2006 onwards.

4.20 In the light of the positive evidence from the pilots to date, the 2004 Pre-Budget Report announced that the Pathways to Work pilots would be expanded to a further 14 Jobcentre Plus districts. This extends this groundbreaking approach to the 30 Local Authority Districts with the highest concentrations of incapacity benefit claimants, covering one-third of the country and 900,000 incapacity benefits claimants in total.¹⁰

Incapacity benefit reform

4.21 In combination with the employment and health support offered through Pathways to Work, and in the context of a society that recognises the importance of ensuring that people with a health condition or disability are enabled to continue working, the next stage is to reform the structure of incapacity benefit.

⁹The Choices package is a range of provision aimed at improving labour market readiness and opportunities. This includes NDDP and the Condition Management Programmes.

¹⁰The expansion will be carried out in three phases so that support will be available from: October 2005 in Cumbria; Glasgow; Lancashire West; and Tees Valley; April 2006 in Barnsley, Rotherham and Doncaster; Sunderland; County Durham; Lanarkshire and East Dunbartonshire; Liverpool and the Wirral; Manchester and Salford; Swansea and West Wales; and October 2006 in Eastern Valleys; Greater Mersey; and Staffordshire.

4.22 Alongside Pathways to Work, the Government has proposed a new model which would include a new 'Rehabilitation and Support Allowance' for people with potentially more manageable conditions. These claimants would receive a higher rate of benefit than the current long-term rate in return for engagement in Work Focused Interviews and for fulfilment of an action plan agreed at the interview. People with the most severe health conditions or disabilities would receive a 'Disability and Sickness Allowance' and will also receive further support to reflect the increased risk of poverty that they face. The Government recognises the important contribution that external stakeholders have made to the development and delivery of the Pathways to Work pilots and intends to continue to work closely with interested parties to develop these proposals.

Linking rules 4.23 For many incapacity benefits claimants, moving into employment after a spell on benefit can be a daunting experience due to the uncertainty involved and the fear of losing higher rates of benefit if work does not go as planned. Incapacity benefits linking rules, which allow claimants who move into employment to reclaim any higher rates of benefit on the same terms as their previous claim, provide reassurance during the transition from benefits to work. **In this Budget, the Government announces that it will simplify and improve the operation of the linking rules from October 2006, through:**

- **automatic application – claimants who have to return to benefit from work because of incapacity will be able to establish their entitlement to the previous higher rate of benefit at the point of reclaiming;**
- **an extended linking rule period – there will be a single linking rule period of 104 weeks for all people leaving a higher rate of incapacity benefits for work; and**
- **immediate re-qualification for the linking rules on a return to benefit – claimants who move back onto benefit from work via the linking rules will be able to re-qualify immediately for the linking rules if they successfully return to work, rather than first having to spend 28 weeks on benefit.**

4.24 The Government will re-launch the linking rules with new material for claimants and ensure that the new arrangements form a central part of discussions between Personal Advisers and claimants.

4.25 Fundamental change can only happen effectively if backed by a collective effort from all stakeholders – the Government, GPs and other healthcare professionals, people with a health condition or disability and their representatives. Employers also have an important role and it is essential that they deal with an individual's absence from work in an effective way, as discussed in Box 4.3.

Box 4.3: Helping people with disabilities stay in work

Poor health or a disability does not always begin when somebody starts to claim incapacity benefits; many new claimants will have already had their sickness absence managed by their employer. Job retention rates are lower for disabled people than the population as a whole, and around 200,000 people move from employment to incapacity benefits each year.

Evidence shows that many employers without experience of managing health problems lack information about how best to support their workers. For example, in one study,¹ while 50 per cent of employers thought it would be difficult to retain someone who became disabled, almost three quarters of those who had actually made adjustments to retain disabled workers had found it relatively straightforward. In addition, some employers may lack information on the best ways to manage sickness absence.²

The Government is committed to working with, and supporting, employers in helping their employees to stay in and return to work when a health condition arises. Access to Work provides support to overcome work-related obstacles resulting from a disability. The information available to employers is also being improved; the Health and Safety Executive for example, produces guidance and standards for employers advising them about managing sickness absence. In 2004 the Government published a Framework for Vocational Rehabilitation, as a first step towards building a new approach in the UK. These changes are supported by statutory requirements under the Disability Discrimination Act, requiring employers to make reasonable adjustments for disabled workers.

Despite this, the Government recognises that there is more to do. Statutory Sick Pay (SSP) ensures that employees who are off work due to illness receive a minimum income paid by their employer for up to 28 weeks. The DWP Five Year Strategy announced that the Government would review SSP to ensure it provides the right incentives to employers to rehabilitate people and get them back to work quickly. It will also consider how best to support business in the management of sickness absence for people on SSP, and ensure consistency with the reformed system of incapacity benefits.

¹ *Disability in the workplace: employers' and service providers' responses to the DDA in 2003 and preparation for 2004 changes*, DWP Research Report 202, 2004.

² *Ibid.*

Lone parents

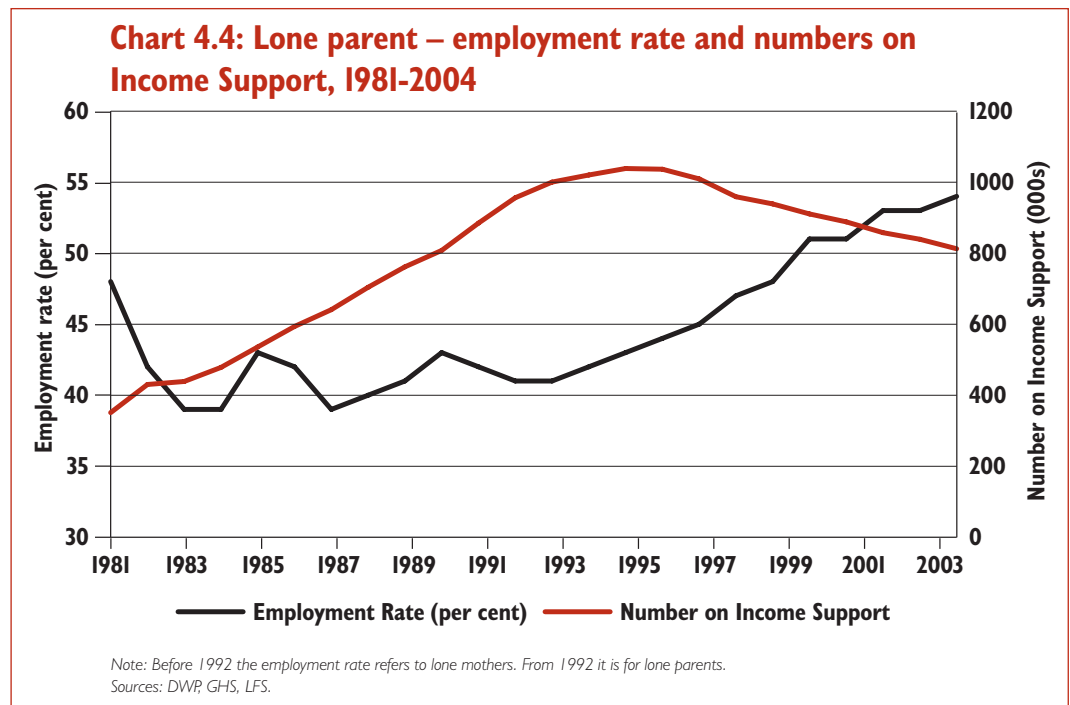
4.26 Between the early 1980s and mid 1990s, the number of lone parents on Income Support trebled and the employment rate of lone parents fell from around 50 per cent to 40 per cent. These trends reflected, in part, demographic factors and changes in the composition of the lone parent population, but were also a consequence of insufficient active support for lone parents on benefit, poor incentives to enter and progress in work, and a shortage of affordable childcare.

4.27 The Government's target is to ensure that 70 per cent of lone parents are in employment by 2010. The lone parent employment rate now stands at over 55 per cent¹¹ – the highest rate on record. There are now almost one million lone parents in work and, in the last year alone, more than 55,000 lone parents have moved into employment. Moreover, since 1997 the number of lone parents claiming Income Support has fallen by more than 200,000. Chart 4.4 shows the evolution of lone parent employment since the early 1980s.

¹¹ Autumn 2004 data, Labour Force Survey.

4.28 Evaluation evidence¹² suggests that the support introduced since 1997 has been a significant reason for this improvement, with Government policies accounting for about half of the gains. In particular:

- 550,000 lone parents have joined the New Deal for lone parents (NDLP), of which nearly 300,000 have been helped into work. Independent evaluation suggests that NDLP doubles the employment chances of lone parents;¹³
- Work Focused Interviews (WFIs) delivered through Jobcentre Plus by skilled Personal Advisers ensure that lone parents are aware of the help available to them. Independent evaluation shows take-up of the NDLP rises by more than 14 percentage points among lone parents required to attend a WFI;
- the Working Tax Credit ensures that work pays. The childcare element of the credit is received by more than 220,000 lone parents, compared to just 40,000 on Family Credit at its peak;
- the Government has invested heavily in improving the affordability, quality and availability of childcare provision. Described further in Chapter 5, the Government's ten-year strategy for childcare, published alongside the 2004 Pre-Budget Report, sets out the Government's long-term vision so that parents have more choice about how to balance work and family life;¹⁴ and
- employers are becoming increasingly aware of the business benefits of allowing their staff to work flexible hours. By 2004, 205,000 lone parents with dependent children were benefiting from flexible working arrangements – a 40 per cent increase from 1997 levels.



¹² *Welfare Reform and Lone Parents Employment in the UK*, CMPO working paper no. 72, Gregg and Harkness, 2003.

¹³ *New Deal for Lone Parents: Second Synthesis Report of the National Evaluation*, DWP, June 2003.

¹⁴ *Choice for parents, the best start for children; a ten year strategy for childcare*, HM Treasury, Department for Education and Skills, Department for Work and Pensions, Department of Trade and Industry, December 2004.

4.29 Despite these successes, the Government recognises that more needs to be done. Lone parent employment remains below that of mothers in couples in the UK and of lone parents in most other OECD countries. Further progress is essential in order for the Government to continue to reduce the number of workless households and eradicate child poverty. The Government is building on the reforms to date by developing and testing new and innovative approaches to supporting lone parents into employment:

- to encourage lone parents to engage in work search activities, the Government is piloting a £20 a week Work Search Premium in eight areas across the country, available to lone parents who have been claiming Income Support for more than a year who choose to look for work; and
- to support lone parents during the transition into employment and improve financial incentives, the Government is piloting a new In-Work Credit – a payment of £40 per week for the first 12 months back in work for lone parents who have been on Income Support for one year or more.

4.30 The DWP Five-Year Strategy sets out the Government's intention to pilot these measures as part of an integrated package of support for lone parents in five areas of the country¹⁵ from 2005.

Women returners **4.31** The 2004 Pre-Budget Report announced that three Regional Development Agencies will pilot new approaches for engaging with non-working mothers, including lone parents, in low income families and facilitating a return to work. **The London Development Agency will begin piloting two support packages in June 2005, across six London boroughs.** The pilots will run for 11 months and there will be an in-depth qualitative evaluation to determine which approaches are most effective.

Partners

4.32 Over the past two decades there has been a significant change in the way that households organise their work, leading to a polarisation of work into 'work rich' dual-earning households and 'work poor' households who are more likely to live in poverty. Historically, the benefits system has focused support on the main claimant, treating partners of benefit claimants as 'adult dependents' with virtually no rights or responsibilities, and thereby contributing to the increase in workless households and pensioner and child poverty.

4.33 In response, the Government has improved the labour market support available to partners. In April 2004, the Government introduced WFIs for benefit claimants, and to date, over 32,000 partners have attended an interview. The Government also relaunched the New Deal for partners (NDP), which in October 2004 became available to partners within families receiving the WTC who are either not working or working less than 16 hours a week. Over 1,650 job entries have been recorded for partners who have either attended a WFI or joined NDP since April 2004.

Older workers

4.34 The Government is committed to ensuring that older people have the opportunity to extend their working lives, should they choose to do so. Opening up these opportunities enhances the ability to save for retirement, for those who wish to. Evidence also suggests that remaining in work can increase social inclusion and improve health.

¹⁵ The five pilot areas are Leicestershire, Bradford, London South East, North London and Dudley and Sandwell.

4.35 The Government has improved the back to work support available to older people through Jobcentre Plus, and through the New Deal for people aged 50 and over, which is estimated to have supported around 150,000 job starts. The Government has also improved the financial incentive to work through the Working Tax Credit, which includes additional support for people over 50. As discussed in more detail in Chapter 5, pension reforms are also providing greater choice and flexibility for people over when, and how, they move from work to retirement.

4.36 These measures have, in the context of a strong and stable economy, delivered impressive results. Since May 1997, the employment rate of people aged between 50 and State Pension Age has increased from less than 65 per cent to over 70 per cent. Furthermore, there are now over 1 million people over State Pension Age in employment, with the employment rate for this group increasing by 1.5 percentage points to over 9 per cent.

4.37 In 2006, in line with the European Employment Directive, the Government will introduce legislation that outlaws age discrimination in employment and vocational training. Following consultation, the Government has concluded that the legislation should provide for a national default retirement age of 65. As announced in Budget 2004, a campaign to support the recruitment, retention and training of older workers will start in May 2005.

The unemployed

4.38 The Jobseeker's Allowance (JSA) regime prevents long-term detachment from the labour market by enforcing, supporting, and monitoring claimants' responsibilities to look for work, with more intensive support for the minority who fail to return quickly to work or who have a high risk of prolonged unemployment. Around 80 per cent now leave JSA within 6 months, compared with 75 per cent in 1997, directly contributing to the fall in JSA claimant numbers to just over 800,000 in January 2005.

4.39 The 2004 Pre-Budget Report set out the Government's intention to build on this success by looking at ways of improving the efficiency of the JSA regime and strengthening the focus on rights and responsibilities. This included testing the effectiveness of a revised and strengthened Jobseeker's Agreement that enables more robust checking of job search steps undertaken. It also set out innovative signing regimes for the first 13 weeks of a claim, including requiring jobseekers to attend Jobcentre Plus irregularly and at short notice.

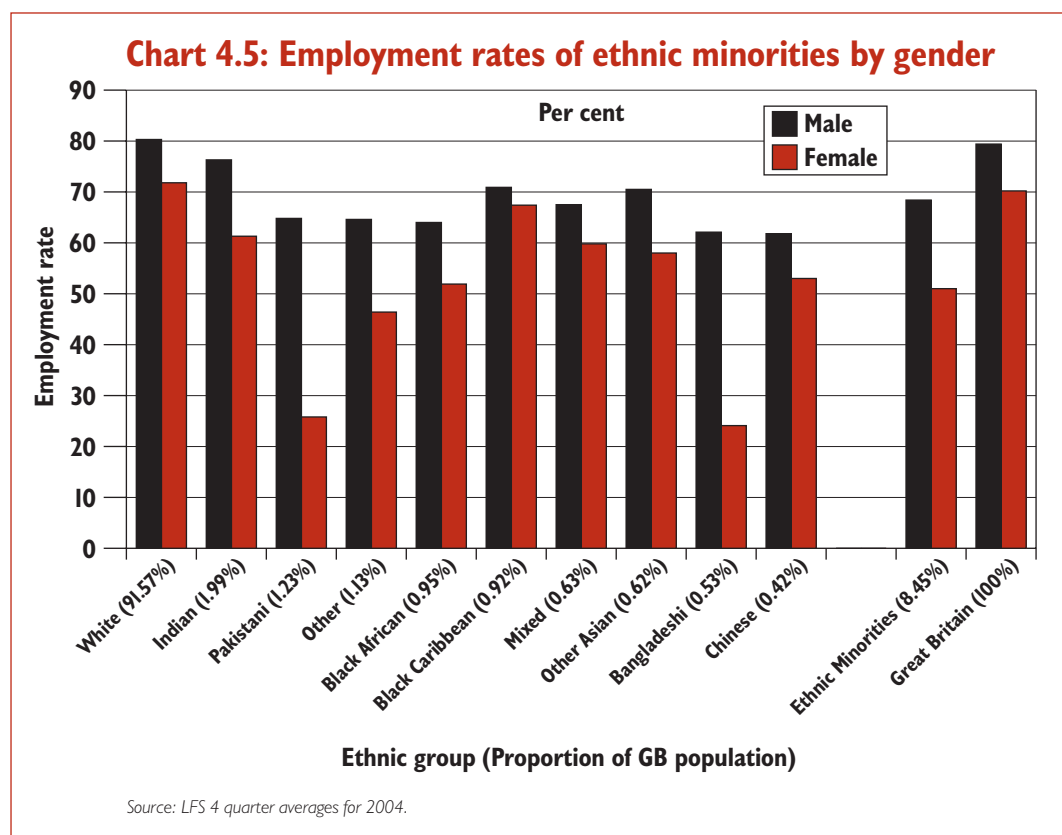
4.40 An effective balance between rights and responsibilities also requires effective penalties for failure to carry out responsibilities. The current sanctions regime can be heavy-handed, with lengthy processes and sanctions imposed long after the instance of non-compliance. There is scope for improving the capacity to respond swiftly and effectively by making identification and referral of instances of non-compliance more automatic, so removing the burden of decision-making from Jobcentre Plus advisers, and speeding up the sanctions process. **The Government will therefore examine the scope for improving Jobseeker's Allowance sanctions and the potential for a fixed fines system.**

4.41 As announced in the 2003 Pre-Budget Report, the Government will build on the support offered to the small minority of JSA claimants who have not moved back into work after six months by intensifying the activity they are expected to undertake as a condition of benefit. In October 2005, Jobseeker Mandatory Activity pilots will be introduced in twelve pilot areas. All claimants aged 25 or over who reach six months of unemployment will be required to participate in a new three day work-focused course delivered by expert providers contracted to Jobcentre Plus. Providers will create a personal action plan to form the basis of subsequent personal activity, and Personal Advisers will monitor whether the action plan has been carried out in a series of three mandatory follow-up interviews.

Ethnic minorities

4.42 While the employment rate for ethnic minorities is rising, and the gap between the ethnic minority employment rate and the overall rate is narrowing, ethnic minorities are twice as likely as the overall population to be unemployed. Around one third of the ethnic minority working age population is economically inactive, compared with just over one fifth of the working age population overall.

4.43 Within the ethnic minority population the experiences of people from different ethnic groups can vary considerably, as Chart 4.5 shows. The Government's overall strategy for raising employment rates for ethnic minorities recognises the need to tackle the specific issues of different groups, and not treat ethnic minorities as a homogenous group. The Ethnic Minority Employment Taskforce is co-ordinating delivery of the cross-cutting recommendations of the Prime Minister's Strategy Unit report in these areas.¹⁶



4.44 People from ethnic minorities who are claiming out of work benefits have access to the full range of mainstream programmes, such as the New Deal, the JSA intervention regime, and the range of programmes and pilots aimed at tackling inactivity. In addition, the Government has established a number of programmes in areas with high ethnic minority populations, to reinforce mainstream support at the local level, including outreach projects; specialist advisers; funding for innovative local projects; and 'Fair Cities Boards' in three major cities, to work with local employers and stakeholders on city-wide strategies to tackle ethnic minority worklessness.

4.45 There are early signs that these policies are contributing to improved labour market outcomes for ethnic minorities. The employment rate has risen by nearly 2 percentage points over the last 12 months to almost 60 per cent. Further improvement across all ethnic minority and faith groups is, however, important.

¹⁶ *Ethnic Minorities and the labour market*, Prime Minister's Strategy Unit, 2003, www.number-10.gov.uk/su/ethnic%20minorities/report/index.htm.

National Employment Panel Report **4.46** In the 2004 Pre-Budget Report, the Chancellor asked the National Employment Panel (NEP), working with the Ethnic Minority Business Forum, to explore further measures to encourage employment, self-employment and growth of small businesses for ethnic and faith minority groups. The NEP has submitted recommendations to the Chancellor that are published today alongside the Budget. The analysis that underpins the recommendations will be published shortly. Box 4.4 lists the main findings.

Box 4.4: Ethnic minority employment and business growth

Since the 2004 Pre-Budget Report, the National Employment Panel, working with the Ethnic Minority Business Forum, has been examining how to increase the employment, self-employment and business growth of ethnic minorities and faith groups in the UK. The Panel has consulted with a wide range of stakeholders – employers, community and faith groups, and academics – to identify reasons for continued disadvantage and to explore ways of building on current services.

The Panel has proposed a range of policy and operational measures. It has recommended that, in order to achieve the greatest impact, most of these measures should be focused on the five cities which together have more than two thirds of the ethnic minority population: London, Birmingham, Manchester, Bradford/Leeds, and Leicester. The Panel also calls for stronger political and business leadership to tackle discrimination and improve race equality within the public and private sectors. The Panel's recommendations include:

- the Department for Work and Pensions and the Department for Education and Skills should ensure mainstream and discretionary resources are sufficiently targeted on the designated cities;
- outreach support for employability, skills development and job access should be focused on people who are not in work, not on benefit and may have been traditionally excluded from the labour market;
- an integrated, employer-led employment and skills framework should be established in each of the designated five cities to increase the number and quality of jobs for ethnic minorities and disadvantaged residents;
- Regional Development Agencies should assess the needs of ethnic minority businesses as part of their Regional Economic Strategies;
- new Centres of Vocational Excellence (CoVEs) for Entrepreneurship should be established in the designated cities;
- the Small Business Service should work with banks and financial intermediaries to review the availability and accessibility of finance in the designated major cities;
- the Government should promote the incorporation of race equality into public procurement within current legal and policy frameworks;
- the public sector should become an example of best practice in promoting race equality and diversity, and fulfil its public duty through improved targets, measurement and evaluation, with departments reviewing their use of Race Equality Impact Assessments;
- a commission of business leaders should be charged with advising on increasing employment of ethnic minorities and faith groups in the private sector by 2010, including indicators by which the private sector can measure progress; and
- the Government should ensure, at Cabinet Committee level, that ethnic and faith minorities participate and share equally in this country's continued economic success.

4.47 Ethnic minority communities are key to future productivity and economic growth. The NEP recommendations set out a challenge to key government and business institutions to make a real change to the way that they operate for ethnic minority people and to realise the aspiration of eradicating disadvantage based on someone's ethnicity or faith. **The Government welcomes the report and accepts the recommendations, and will develop proposals for taking them forward.** In recognition of the important role self-employment and entrepreneurship can play in helping young people from ethnic and faith minorities contribute to economic growth and tackling social inclusion **the Government will begin by piloting Centres of Vocational Excellence in Entrepreneurship in two of the designated cities.**

SKILLS AND MOBILITY

Enhancing skills in the labour market

4.48 Enabling people to acquire skills is central to helping them find, and progress in, employment, and to ensuring that businesses have access to the skilled workforce they need. Education and skills are central to the Government's ambition of promoting a high-skilled, high-productivity workforce which will ensure the UK can prosper in the increasingly competitive global economy. The Budget sets out a programme of long-term investment in education, described further in Chapter 6, and further measures to enhance the development of skills, to ensure that everyone has the opportunity to fulfil their potential. This section focuses on measures to help people on benefits develop the skills they need to re-enter the labour market. The Government's approach to enhancing workforce skills levels is set out in Chapter 3, while measures to support 16-19 year olds in education and training are set out in Chapter 5.

Skills to enter and progress in work

4.49 To provide co-ordinated and seamless access to a broad range of support, the New Deal for skills will offer skills coaches in jobcentres to identify skill gaps, direct people to appropriate training opportunities, and ensure a seamless transition from training on benefit to training in work. The 2004 Pre-Budget Report set out proposals for further developing the New Deal for skills by testing the impact of a 'Learning Option' that would enable benefit claimants for whom lack of skills is a primary barrier to work to participate in full-time training.

Enhancing choice and mobility

4.50 As described in Box 4.2, flexibility is central to ensuring a smoothly functioning labour market capable of adapting to economic change. The ease with which people are able to move location or commute is a key determinant of labour market flexibility, allowing workers to take advantage of a broad range of employment opportunities, and contributing to the Government's goal of full employment in every region.

Housing Benefit

4.51 The structure and delivery of Housing Benefit has a large part to play in ensuring labour mobility. Housing Benefit provides help to over 3.8 million low-income tenants, both in and out of work. However, Housing Benefit can be complex both for claimants to understand and for local authorities to deliver. The Government's Housing Benefit reform programme is therefore addressing administrative improvements; structural reform; and the streamlining and alignment of benefits.

4.52 Government support to help local authorities improve their administration of Housing Benefit has already led to significant improvements. By the second quarter of 2004-05, the average time to process a new claim had improved by 10 days compared to the second quarter of 2002-03. Over the same period, the 60 worst performing authorities reduced their average clearance times for new Housing Benefit claims by 25 days. The average time taken to make a decision on a change of circumstances has also improved, from 19 days in the second quarter of 2002-03 to 13 days in the second quarter of 2004-05. The Performance Standards Fund will continue to provide resources to support administrative improvements until March 2006. **In addition, from 2006, the Government intends to introduce improved IT links between local authorities and the DWP to provide faster and more accurate processing of Housing and Council Tax Benefit.**

Local Housing Allowances

4.53 The Government is also making good progress with structural reform of the Housing Benefit system. The flat-rate Local Housing Allowance (LHA) has been successfully implemented in nine Pathfinder areas,¹⁷ with over 35,000 private sector tenants now receiving it. The Government intends to roll out the flat-rate system throughout the country by March 2008, informed by the evaluation of the Pathfinders. In preparation for full national roll-out of the private sector LHA system, the Government will introduce a second round of nine Pathfinders from April 2005.¹⁸ These will help develop best practice before the system is introduced nationally.

4.54 Tenants in the social sector are entitled to the same standards of service and the same opportunity to exercise choice as those tenants in the private sector. Consequently, the Government is also committed to developing pilots of the flat-rate LHA in the social rented sector, based on the principles underlying the LHA system, to encourage choice, responsibility and fairness. As announced in the 2004 Pre-Budget Report, the Government will introduce a £180 million Housing Benefit Reform Fund from April 2006 to March 2008 to help the DWP to roll out flat-rate allowances and to continue to improve the administration and structure of Housing Benefit.

4.55 The Government is also continuing to simplify the Housing Benefit and Council Tax Benefit system to make further improvements in administration. This Budget announces that:

- **from April 2005, the Government will align the rules in Housing Benefit and Council Tax Benefit with those in other income-related benefits so that all claims will be taken from the date of first contact as long as a written claim is made within four weeks;**
- **from April 2006, the Government will protect student households from Council Tax liability if a non-student receiving an income-related benefit joins the household; and**
- **from April 2006 the Government will also introduce a number of other changes in Housing and Council Tax Benefit that have been requested by local authorities to simplify the claiming and administration of Housing and Council Tax Benefit.**

¹⁷ The nine existing LHA pathfinders are in Blackpool; Coventry; Lewisham; Brighton and Hove; Edinburgh; North East Lincolnshire; Conwy; Leeds; and Teignbridge.

¹⁸ The second round of LHA pilots will be in Argyll-Bute; East Riding of Yorkshire; Guildford; Norwich; Pembrokeshire; Salford; South Norfolk; St Helens; and Wandsworth.

MAKING WORK PAY

4.56 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 and the National Minimum Wage, the Government has boosted in-work incomes, improving financial incentives to work and tackling poverty among working people.

The National Minimum Wage

4.57 The National Minimum Wage guarantees a fair minimum income from work. In February 2005, **the Government accepted the Low Pay Commission's recommendations to increase the adult rate to £5.05 an hour from October 2005 and, subject to the Low Pay Commission's review early next year, to £5.35 from October 2006. The youth rate, for workers aged between 18 and 21, will also rise, to £4.25 from October 2005 and to £4.45 from October 2006.**

The Working Tax Credit

4.58 The Working Tax Credit provides financial support on top of earnings for households with low incomes. By December 2004, 2.2 million working families and over 250,000 low-income working households without children were benefiting from the Working Tax Credit. Some 87,000 households were benefiting from the disabled worker element of the Working Tax Credit, more than double the number who received support through its predecessor, the Disabled Person's Tax Credit. **The Government announced in the 2004 Pre-Budget Report that it would increase the income threshold above which Working Tax Credit is tapered away in line with inflation in April 2005 to £5,220 per year.**

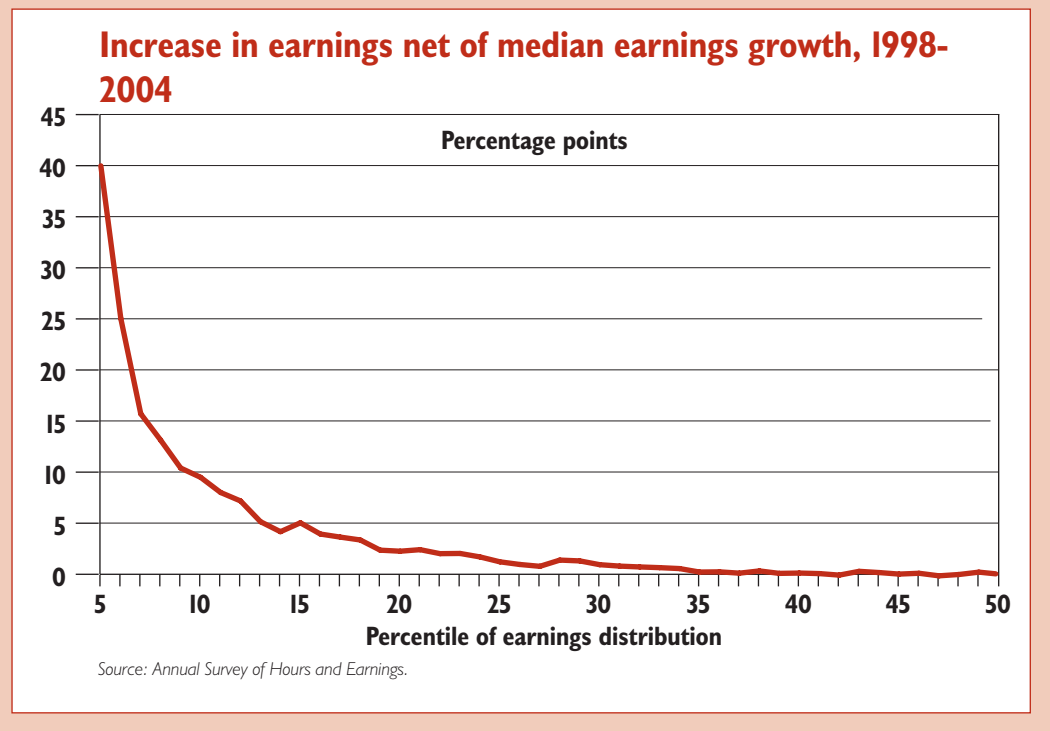
4.59 Tax credits have reduced the burden of tax for low-income households and for workers with a disability. This is discussed in more detail in *Tax Credits: reforming financial support for families* which is published alongside Budget 2005 and is described in Box 5.1. The Government will consider carefully what changes can be made to tax credits to complement the reforms to incapacity benefits discussed earlier in this chapter.

4.60 The 2004 Pre-Budget Report set out improvements to the childcare element of the Working Tax Credit. These reforms will make childcare more affordable for working families on low or moderate incomes; significantly increasing the financial gains to work for families with eligible childcare costs. Some 330,000 families stand to benefit by, on average, £400 per year as a result of the increase in the maximum proportion of costs covered from 70 to 80 percent in April 2006. Financial support for childcare is discussed in more detail in Chapter 5.

Box 4.5: Measuring the impact of the National Minimum Wage

The standard measure of the impact of the National Minimum Wage (NMW) has been the 'expected number of beneficiaries', the number of workers whose pay would otherwise be expected to be paid below the new NMW rate. However, this measure does not reflect the impact of the minimum wage on the wage distribution more generally. For example, many firms increase their lowest pay levels to ensure that they remain slightly above the NMW rate. These low-paid workers, who are benefiting indirectly from the increases in the NMW, are not captured by the expected number of beneficiaries measure.

The NMW has helped to increase significantly the earnings of the lowest paid workers. The chart below shows the total increase in hourly pay across the bottom half of the earnings distribution between 1998 and 2004. The increase in median pay over that period of 25 per cent has been netted off, so that the chart highlights movements above the median. The lowest paid workers have benefited from above-average increases in pay in recent years – pay at the 10th percentile of the distribution has risen by nearly 10 per cent above median pay growth.



Tackling the unemployment trap 4.61 The unemployment trap occurs when those without work find the difference between in-work and out-of-work incomes too small to provide an incentive to enter the labour market. Table 4.1 shows that, since the introduction of the National Minimum Wage in April 1999, the Government has increased the minimum income that people can expect when moving into work, thereby reducing the unemployment trap.

Table 4.1: Weekly minimum income guarantees

	April 1999	October 2005	Percentage increase in real terms ²
Family ¹ 1 child, full-time work	£182	£260	22%
Family ¹ 1 child, part-time work	£136	£202	27%
Single person, no children, 25 or over, full-time work	£113	£169	28%
Couple, no children, 25 or over, full-time work	£117	£200	46%
Single disabled person in full-time work	£139	£211	29%
Single disabled person in part-time work	£109	£153	20%

Note: assumes a single earner household, the prevailing rate of the National Minimum Wage and that the family is eligible for the Working Families' Tax Credit or Disabled Person's Tax Credit and the 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 one parent families and couples with children alike.

² RPI growth for 2005 is taken from the HM Treasury economic forecast.

Tackling the poverty trap

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

4.63 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, around half a million fewer low-income households now face MDRs in excess of 70 per cent than in April 1997. The increase in the number of households facing MDRs of between 60 and 70 per cent is primarily due to the introduction of tax credits, which have extended financial support so that far more families benefit.

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

Marginal deduction rate ¹	Before Budget 1998	2005-06 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	30,000
Over 80 per cent	300,000	165,000
Over 70 per cent	740,000	235,000
Over 60 per cent	760,000	1,730,000

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, and the head of the household is not a disabled person.

Note: Figures are cumulative. Before Budget 1998 based on 1997-98 estimated caseload and take-up rates; the 2005-06 system of tax and benefits is based on 2003-04 caseload and take-up rates.

FUNDING FOR WELFARE TO WORK

4.64 The Department for Work and Pensions delivers the Welfare to Work programme. Originally funded from the one-off Windfall Tax on the excess profits of the privatised utilities, the programme is now funded from resources allocated in the 2002 Spending Review. Table 4.3 sets out that element of the Welfare to Work programme, and other programmes, funded from the Windfall Tax.

Table 4.3: Allocation of the Windfall Tax

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

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

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

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

⁴ Includes funding for the Innovation Fund.

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

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

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

⁸ Includes £219 million funding for Employer Training Pilots.

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

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

