

# 4

## INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

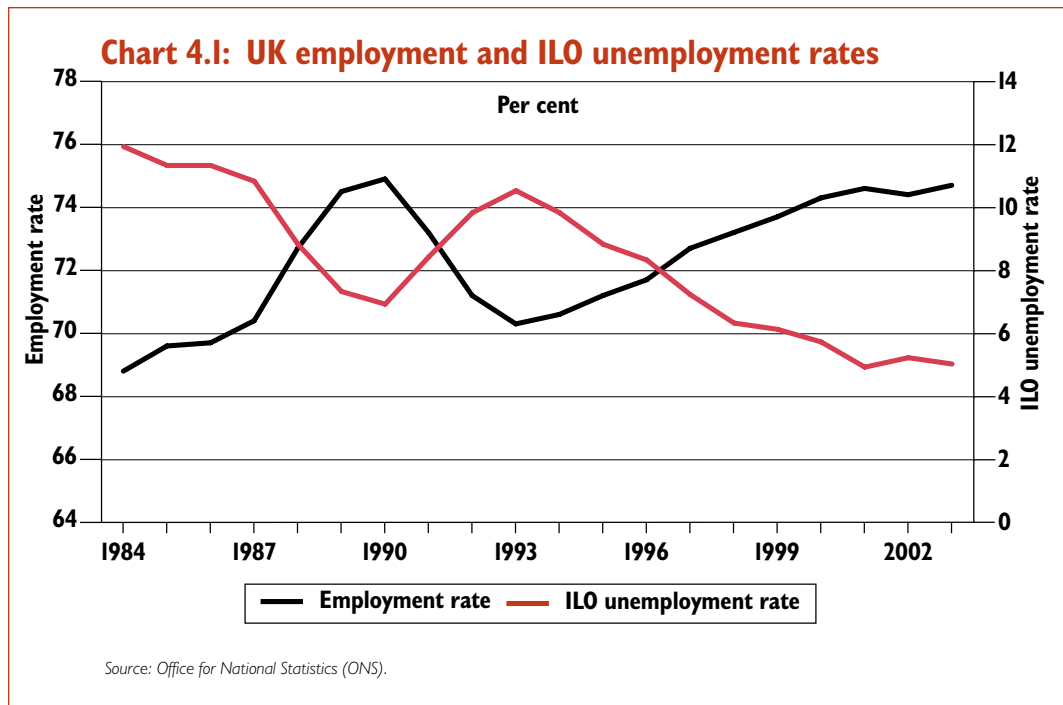
The Government's long-term goal is employment opportunity for all – the modern definition of full employment. It aims to ensure a higher proportion of people in work than ever before by 2010. To achieve this, individuals who want and are able to work should be provided with the support they need to enable them to find employment and develop skills. The Government recognises that each individual will face different barriers to work. Delivering full employment therefore requires a personalised approach, with services tailored to the needs of the individual and local circumstances. This chapter describes the further steps the Government is taking to move towards its aim of employment opportunity for all, including:

- **the piloting of a mandatory work-focused interview regime for some existing claimants of incapacity-related benefits** in the Pathways to Work pilot areas;
- **the piloting of a job preparation premium of £20 per week** in the Pathways to Work pilot areas, for existing claimants of incapacity-related benefits who undertake relevant activity that supports a return to work;
- **the introduction of a worksearch premium of £20 per week**, available to those in a family in receipt of the Working Tax Credit who are not working, in six pilot areas with high levels of worklessness;
- **the introduction of a second set of Local Housing Allowance Pathfinders in the private rented sector from April 2005;**
- **a package of measures to simplify the rules around Housing Benefit;**
- **from October 2004, an increase in the adult and youth rates of the National Minimum Wage to £4.85 and £4.10 respectively, and the introduction of a National Minimum Wage for 16 and 17 year old workers of £3.00 an hour;** together with the Learning and Skills Council and employers, the Government will work to achieve minimum pay levels for apprentices in England of £70 to £80 per week;
- **an extension of measures for lone parents** in six cities with large lone parent populations, including access to NVQ level 3 training; and
- **'Fair Cities' initiatives**, to be established in three areas later this year, to improve employment outcomes for people from disadvantaged ethnic minority groups.

### INTRODUCTION

**4.1** The Government's long-term goal is employment opportunity for all – the modern definition of full employment. It aims to ensure a higher proportion of people in work than ever before by 2010. The Government believes that everyone who is able and wants to work should have the opportunity to do so, and should be given support appropriate to their individual needs. Along with extending the right to support, the Government is also increasing the responsibilities placed on each person to take steps to improve their own chances of moving from welfare to work. Only by extending rights and responsibilities together can the welfare system be made more fair and efficient.

**4.2** The Government's strategy for extending employment opportunity builds on the strong performance of the UK labour market over recent years. UK unemployment, on the International Labour Organisation (ILO) definition, fell in the last quarter of 2003 to 4.9 per cent, the lowest of the G7 economies, while the working age employment rate reached 74.5 per cent. The employment level has risen by nearly 1.7 million since spring 1997, while claimant count unemployment has fallen by more than 700,000 since 1997 and has remained consistently below one million since February 2001. Chart 4.1 shows UK labour market performance since 1984.



**Regional employment** **4.3** The Government is determined to ensure that the labour market works effectively for everyone in all parts of the country. In the last few years, employment has risen and unemployment fallen in every region of the UK, and there has been a narrowing of previously wide differences between regions. At the same time, however, this progress has not been felt by all groups or across all areas to a sufficient extent. The Government set out its strategy for tackling regional and local variations in employment in *Full employment in every region*, published alongside the 2003 Pre-Budget Report. *Devolving decision making: 2 – meeting the regional economic challenge; increasing regional and local flexibility*, published today alongside the Budget, sets out the Government's approach to achieving the responsive regional and local services necessary to address the economic disparities that still exist between regions.

**Flexibility and fairness in the labour market** **4.4** The UK's strong employment performance is based on a foundation of macroeconomic stability and reforms that have enhanced flexibility in labour, product and capital markets. A flexible and efficient labour market has the ability to adjust to changing economic conditions in a way that maintains high employment, low inflation, low unemployment and continued growth in real incomes. To achieve flexibility in the labour market requires an institutional environment that encourages labour force participation, equips people to adapt rapidly to change and provides support for those without employment. Box 4.1 summarises trends and progress in UK labour market flexibility since Budget 2003.

<sup>1</sup> *The consequences of 'in work' benefit reform in Britain: new evidence from panel data*, Francesconi, M. and Van der Klaauw, W., University of Essex, 2004.

**4.5** The Government's labour market policies ensure that flexibility and fairness go hand in hand. The tax and benefit system, described in this chapter and in Chapter 5, provides financial support for those who need it most, when they need it most. Recent research<sup>1</sup> shows the positive impact of the Government's policies in this area with, for example, a 7 per cent increase in the proportion of lone parents working 16 or more hours per week resulting from the introduction of the Working Families' Tax Credit (WFTC). Policies to promote the development of employment services, such as the introduction of the New Deals and Jobcentre Plus, provide the help and support that enable people to enter the labour market rapidly. Policies to raise skills levels will help to ensure that workers have the skills that employers need and are able to respond more flexibly to changes in the demand for labour.

#### **Box 4.1: Labour market flexibility – report on progress**

**An efficient and flexible labour market that creates jobs and raises productivity is essential to the UK. However, were the UK to join Economic and Monetary Union (EMU), a flexible labour market would be particularly important. Inside EMU, the loss of national monetary policy and the nominal sterling-euro exchange rate as adjustment mechanisms would place a greater burden of adjustment on factor and price movements in response to a country-specific shock. The 2003 assessment of the five economic tests for UK membership of EMU concluded that, since 1997, UK labour market flexibility has improved markedly. However, important challenges remain in the UK to reduce inactivity and repeated spells of worklessness and to enhance skills levels and improve mobility. More progress on labour market reform would enhance flexibility in the UK and advance the Government's long-term goal of employment opportunities for all. In the context of EMU, greater flexibility in the UK and throughout the euro area would minimise output and employment instability, helping to ensure convergence was durable and that the potential benefits of EMU could be fully realised.**

Details of trends, measures and progress on the flexibility of labour markets are set out in the report *Flexibility in the UK economy* published alongside the Budget, and new measures introduced in the Budget are set out in Chapters 3 and 4. Measures include:

**Developing skills:** through a New Deal for skills which sets out a vision for closing the skills gap with the UK's international competitors; reform of financial support for 16-19 year olds, to increase the proportion who reach the age of 19 equipped with the skills they need to succeed; and the addition of six new areas that will take part in Employer Training Pilots from September 2004.

**Enhancing wage flexibility:** by amending the remits for the Pay Review Bodies to include a stronger local and regional dimension, and working with the rest of the public sector to increase the focus on respecting local pay conditions, side by side with UK-wide guarantees of a National Minimum Wage and tax credit support for low paid workers, to make work pay.

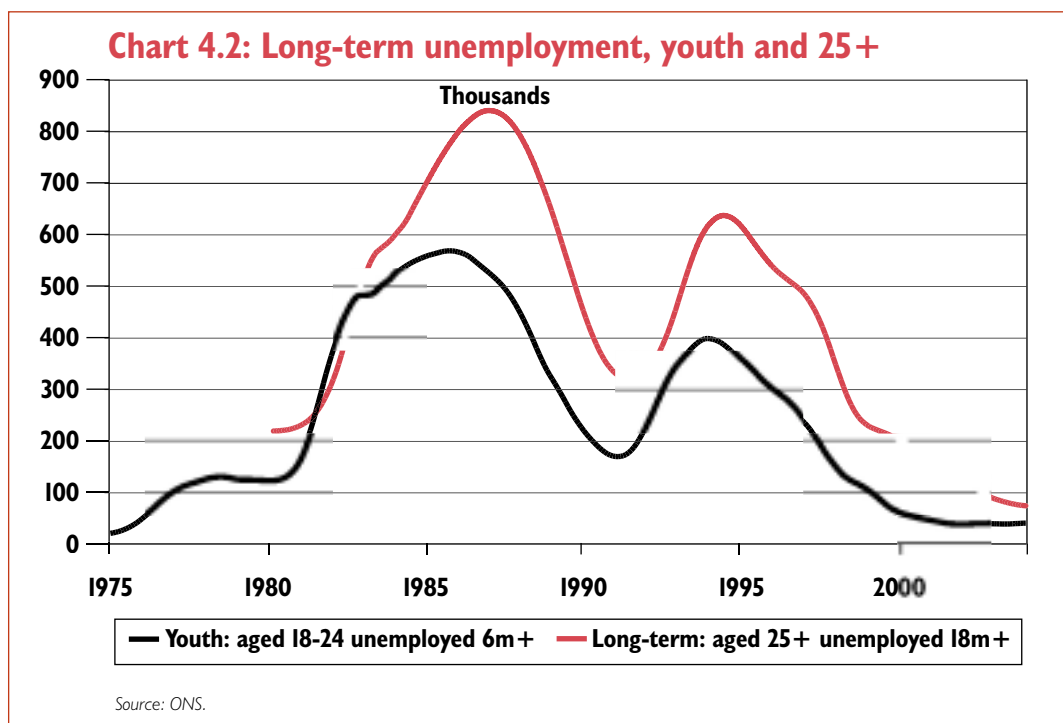
**Improving labour market opportunities:** through a range of measures to extend the support available to lone parents, people with health conditions and disabilities and others who would like to work; the introduction of practical guidance to support the recruitment, retention and training of older workers; and through increased discretionary powers and funding available to local Jobcentre Plus staff. The Government will consider the case for extending further flexibility to respond to the needs of individual clients and local areas.

**Promoting geographic mobility and economic migration:** through new measures to ensure that Housing Benefit does not constrain the ability of the unemployed to find or take up work; following up the recommendations of the Barker Review of the constraints on housing supply; and improvements in and extension of the Highly Skilled Migrant Programme.

**The New Deals 4.6** The New Deals have been integral to the success of the Government's labour market policy over recent years. Since its launch in 1998, the New Deal for young people (NDYP) has helped nearly 480,000 people between the ages of 18 and 24 to move into employment, while the New Deal for those aged 25 and over (ND25+) has helped over 170,000 people get back to work. New Deal programmes have contributed to a fall in long-term unemployment of over three-quarters since 1997, including a fall in long-term youth unemployment from 177,500 in spring 1997 to only 41,500 in January 2004. Both the NDYP and the ND25+ provide personal adviser support and opportunities to improve basic skills and training and participate in subsidised employment.

**4.7** In 2000, the National Institute of Economic and Social Research (NIESR) concluded that, without the NDYP, the level of long-term youth unemployment would have been twice as high.<sup>2</sup> More recent studies show that the NDYP has reduced overall youth unemployment by between 30,000 and 40,000;<sup>3</sup> that young unemployed men are now 20 per cent more likely to find work as a result of the New Deal; and, more generally, that the social benefits of the NDYP outweigh the costs.<sup>4</sup>

**4.8** The New Deal for lone parents (NDLP) has also proved successful. Of the 541,000 lone parents who have joined the NDLP, over 247,000 have been helped into employment, contributing to a rise in the lone parent employment rate from around 47 per cent when the NDLP was introduced, to 53.4 per cent in spring 2003. Independent evaluation for the Department for Work and Pensions (DWP) suggests that, "*the programme doubles the employment chances of participants; 50 per cent of participants entering work compared to 26 per cent of non-participants – an additional impact of 24 percentage points*".<sup>5</sup>



<sup>2</sup> *The New Deal for young people: implications for employment and the public finances*, NIESR, December 2000.

<sup>3</sup> *New Deal for young people: evaluation of unemployment flows*, Wilkinson, D., Policy Studies Institute, 2003.

<sup>4</sup> *Active labor 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 (awaiting publication).

<sup>5</sup> *New Deal for lone parents: second synthesis report of the national evaluation*, Centre for Analysis of Social Policy, University of Bath (Evans, Eyre, Millar, Sarre), June 2003.

**Skills 4.9** The Government's employment policies are succeeding in getting people into work. However, intervention is also needed to support people in gaining the skills they need to progress and move from low to high skilled work. A highly skilled workforce is a key part of a flexible economy, while for the individual, acquiring and developing skills helps support sustained employment. The Government is determined to help people enter, remain, and progress in work by ensuring that they have the skills they need to reach their full potential.

**4.10** Benefit claimants currently have access to a wide range of skills provision, including through the New Deals, Work Based Learning for Adults and Basic Skills training. Chapter 3 sets out the Government's New Deal for skills, which will assist those in work to move from low to high skilled employment, and will give those out of work improved access to the high quality skills advice and training they need to find sustainable employment. As part of the New Deal for skills, Jobcentre Plus will work with Information Advice and Guidance Partnerships to ensure that skills counsellors are co-located and integrated with the work of Jobcentre Plus offices, and Jobcentre Plus will ensure that its customers are able to access Learndirect and other relevant websites.

**Next steps 4.11** Having achieved significant falls in unemployment, the Government is determined to do even more for those who face the most difficult barriers to work. This requires a personalised approach where service providers are given sufficient flexibility to deliver solutions appropriate to local areas and individuals. This Budget sets out the next stages of the Government's employment strategy, focusing on providing increased support for those groups that continue to face barriers to work, including people with health conditions or disabilities, lone parents and ethnic minorities. Through its proposals the Government aims to:

- ensure that barriers to work are tackled, particularly for those people that have not been given sufficient opportunities to access work-focused support in the past, such as claimants of incapacity-related benefits; and
- ensure that people are better able to make personal choices to overcome their own barriers to work.

## EXTENDING EMPLOYMENT OPPORTUNITY TO ALL

**4.12** The Government is committed to extending employment opportunity to all, ensuring that support is available to help everyone fulfil their potential. All those who are able to work should be given the opportunity to participate in a flexible and buoyant labour market, and should be helped to develop the skills necessary for them to sustain and progress in employment. Not only does this benefit individuals, giving them and their families the best chance of avoiding poverty and enjoying financial security later in life, but it also promotes a growing and enterprising economy, capable of supporting those people who are unable to work.

## Effective job search

### Helping the unemployed move into work

**4.13** The Government's Welfare to Work strategy ensures that the unemployed are given the support and skills they need to move back into work as quickly as possible, with more intensive support provided through the New Deals for those who are unsuccessful in the earlier stages of their benefit claim.

**4.14** Delivered through Jobcentre Plus, the Jobseeker's Allowance (JSA) regime provides individuals who are out of work and actively seeking employment with the advice and support they need to find jobs. JSA has been effective in maintaining low unemployment and reducing the risk of long-term detachment from the labour market. Most people move rapidly off JSA, with 60 per cent leaving JSA within 13 weeks and over 75 per cent within six months. The Government has introduced a number of measures to build on this success, including:

- from April 2004, as announced in Budget 2003, **the minimum number of steps that JSA claimants are required to take to search for jobs will increase, as will the number of interventions in the first six months;** and
- as announced in the 2003 Pre-Budget Report, **from June 2005, the Government will pilot in ten areas a mandatory short intensive work-focused course for all JSA claimants, aged 25 or over, at the six-month stage, followed by three mandatory personal adviser interviews.**

### Sick and disabled people

**4.15** Sick and disabled people make up the largest group on out-of-work benefits. There are currently over 2.7 million people of working age claiming incapacity benefits, a number which until recently was rising strongly. Many of the people on these benefits are capable of and want to work, but too often in the past were denied the support necessary to enable them to do so.

**4.16** In recent years, economic success and the extra help and support that the Government has introduced have made a difference. The number of people moving onto incapacity-related benefits has fallen by around one-third since 1995, and the growth in the incapacity benefits caseload has slowed considerably. Between spring 1998 and spring 2003, the employment rate of disabled people increased from 43.5 per cent to 49 per cent. However, it remains significantly below that of the overall working age population. The Government is committed to providing further employment support to enable people with health conditions or disabilities to realise their aspiration of moving into work.

**4.17** Support is available for disabled people moving into work through programmes such as Access to Work and Work Preparation. The Government also recognises the additional costs faced by disabled people participating in the labour market. The Working Tax Credit (WTC) has addressed this and, together with the National Minimum Wage, has increased the guaranteed minimum income for a single disabled person working 35 hours a week from £173 in April 2002 to £204 a week from October 2004. The New Deal for disabled people (NDDP) provides support and encouragement for people on incapacity-related benefits seeking to work. The NDDP, which has helped over 25,000 people into employment since its national launch in July 2001, has been improved and extended to March 2006.

**4.18** Recognising that some people with health conditions or disabilities may not be ready to move immediately to the provisions provided by the NDDP, **the 2003 Pre-Budget Report announced extra support from April 2004 to enable Jobcentre Plus personal advisers to help those on incapacity benefits who want to move into work.**

**4.19** Creating a wider framework of support within which to deliver provision such as the NDDP more effectively, the Government launched its Pathways to Work pilots in three areas in October 2003. The Organisation for Economic Co-operation and Development (OECD) recently described the pilots as a “*radically new approach to dealing with those on incapacity benefits*”.<sup>6</sup> The pilots aim to reshape the culture and expectations of being on an incapacity benefit, placing a stronger focus on returning to work particularly in the critical early stages of a claim. The pilots will test the effectiveness of more skilled adviser support; more intensive mandatory work-focused interviews; engagement of key stakeholders such as employers and General Practitioners; and improved and more visible financial incentives through a Return to Work Credit. A further four pilot areas will commence from April 2004.<sup>7</sup>

**4.20** Contact with personal advisers can raise individuals’ knowledge of local labour market opportunities and the employment and financial support available to them. The Pathways to Work pilots are testing a new mandatory work-focused interview regime within Jobcentre Plus for new claimants of incapacity benefits, early and sustained support that will reduce the likelihood of people becoming long-term claimants. The Government noted during the Pathways to Work consultation that it would consider whether it would be sensible and feasible to extend the work-focused interview regime to some of the existing claimants of incapacity benefits in the pilot areas once the effectiveness of the new arrangements became clear. The pilots have bedded in well, and **Budget 2004 now announces an extension to the support available in the seven Pathways to Work pilot areas with:**

- **the piloting of a mandatory work-focused interview regime for some existing claimants of incapacity-related benefits.** Most people who started a claim in the two years prior to the launch of the Pathways to Work pilots will be required to take part in three additional work-focused interviews.<sup>8</sup> This extra support will provide these claimants with an informed choice and encourage them to realise the aspirations many still have of a return to work; and
- **the piloting of a job preparation premium of £20 per week, available to existing claimants of incapacity-related benefits who undertake relevant activity that supports a return to work.** The premium will be payable for a maximum of 26 weeks where the claimant completes an action plan detailing a return to work, and undertakes approved activities in support of that plan.<sup>9</sup>

**4.21** This provision ensures that both responsibilities and rights are extended together, and the Government will look to roll out these measures from January 2005 in the first three Pathways to Work pilot areas and from April 2005 in the remaining four locations. The DWP will discuss these new proposals with external stakeholders before they are implemented to ensure that they are introduced in such a way as to best encourage a return to work. The Pathways to Work pilots, including this new provision, will be evaluated robustly and rigorously to assess what interventions are most effective and to shape the scope for rollout to other areas.

<sup>6</sup> *Economic survey of the UK*, OECD, 2004.

<sup>7</sup> These will be in East Lancashire; Essex; Gateshead and South Tyneside; and Somerset.

<sup>8</sup> As with the existing arrangements for new claimants, people who have a severe health condition or disability (as defined through the exempt categories for the Personal Capability Assessment) will not be required to take part in the mandatory regime. They will, however, be able to access the support on a voluntary basis.

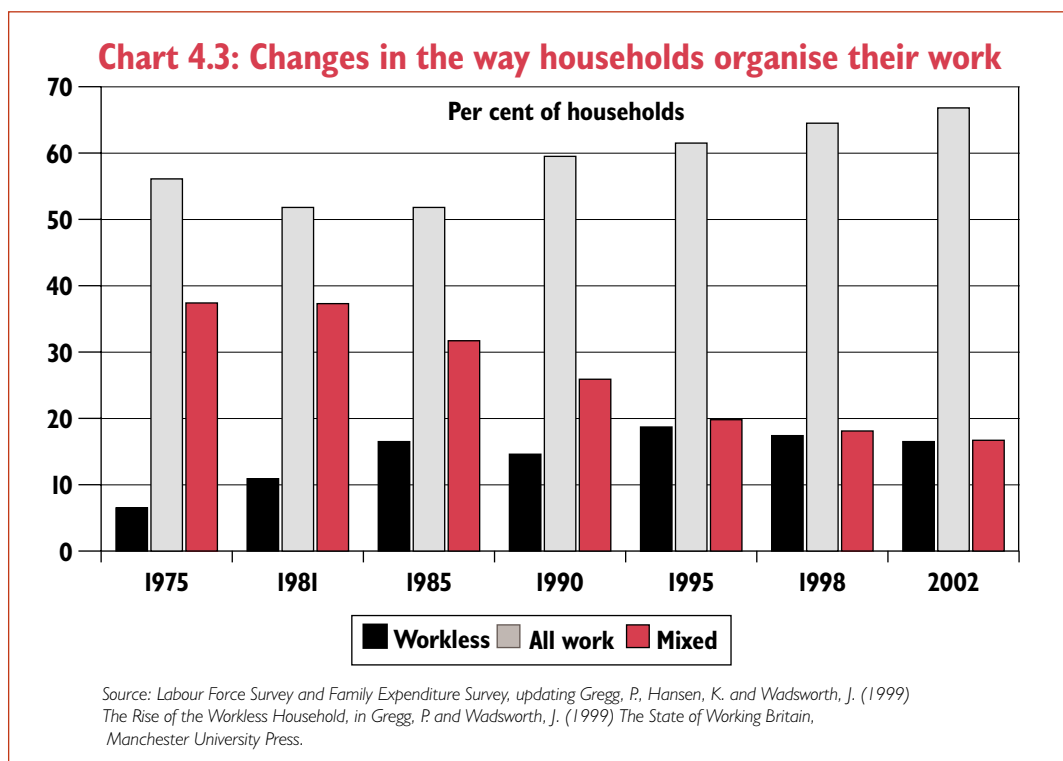
<sup>9</sup> The activities include Work Based Learning for Adults, Programme Centres, Work Preparation, Condition Management Programmes, the NDDP, the New Deal for those aged 50 and over (ND50+) and Jobcentre Plus personal adviser caseloading.

**4.22** Underpinning the Government's initiatives is the legislative framework set out in the Disability Discrimination Act (DDA). The employment provisions of the DDA ensure that disabled people are not treated less favourably with respect to recruitment, retention, training and promotion. The DDA is discussed in more detail in Chapter 5.

**Partners 4.23** Since the mid 1980s there have been significant changes in the way that households organise their work, related to a steady increase in the employment rate among women from 59 per cent in 1984 to 70 per cent today. Chart 4.3 shows how work is polarised between 'work-rich' and 'work-poor' households. It illustrates the importance of providing work-focused support to every adult in a household who is without work, and not just to the main claimant of benefits, if the Government is to meet its goals of extending employment opportunity to all and tackling child poverty.

**4.24** In order to address this problem of workless households and the consequences for child and pensioner poverty, the Government has sought to:

- ensure that information reaches partners who otherwise would not engage with any active labour market policies, through the work-focused interview regime;
- provide access to voluntary programmes, with parity between the New Deal for partners (NDP) and the NDLP;
- introduce joint claims, starting with younger couples without children and eventually ending the outmoded concept of adult dependence; and
- improve gains to work for second earners working part-time, compared with previous systems of financial support.



**4.25** There are still over 4.2 million people of working age and almost 1.8 million children living in workless households. The Government believes that every workless adult should have access to the work-focused support provided by Jobcentre Plus, and that the nature of this support should reflect each individual's circumstances.

**4.26** As announced in the 2002 Pre-Budget Report, **the Government intends to introduce compulsory work-focused interviews for partners of all new and existing benefits claimants from April 2004, over and above those having joint claim status for JSA.**

**4.27** Building on the success of the voluntary NDLP, the NDP offers tailored, personalised advice and support to partners of benefit claimants in households in which both partners are workless. As announced in Budget 2003, **the NDP will be enhanced from April 2004 to provide the same package of support as is currently available to lone parents. Partners will also be eligible for the enhanced Job Grant from October 2004.**

**4.28** Around 800,000 children live in couple single-earner families with low incomes. Tackling child poverty requires the provision of work-focused support for non-working partners in these families. As announced in the 2003 Pre-Budget Report, **the Government will extend eligibility for the NDP to those in a family in receipt of the WTC who are either not working or are working less than 16 hours a week from October 2004.** This will help to ensure that those who are workless can benefit from work-focused help, regardless of the status of their partner.

**4.29** The Government recognises that the costs of looking for work may act as a disincentive to non-working partners in single-earner families. **Budget 2004 therefore announces that:**

- **from October 2005 a new worksearch premium of £20 per week will be available to those in a family in receipt of the WTC who are not working, who agree to join the enhanced NDP and voluntarily choose to search actively for a job, in six pilot areas with high levels of worklessness.**

**4.30** This will address the inactivity of partners of those in lower paid employment, and has the added advantage of addressing the lower employment rates of some ethnic minority groups.

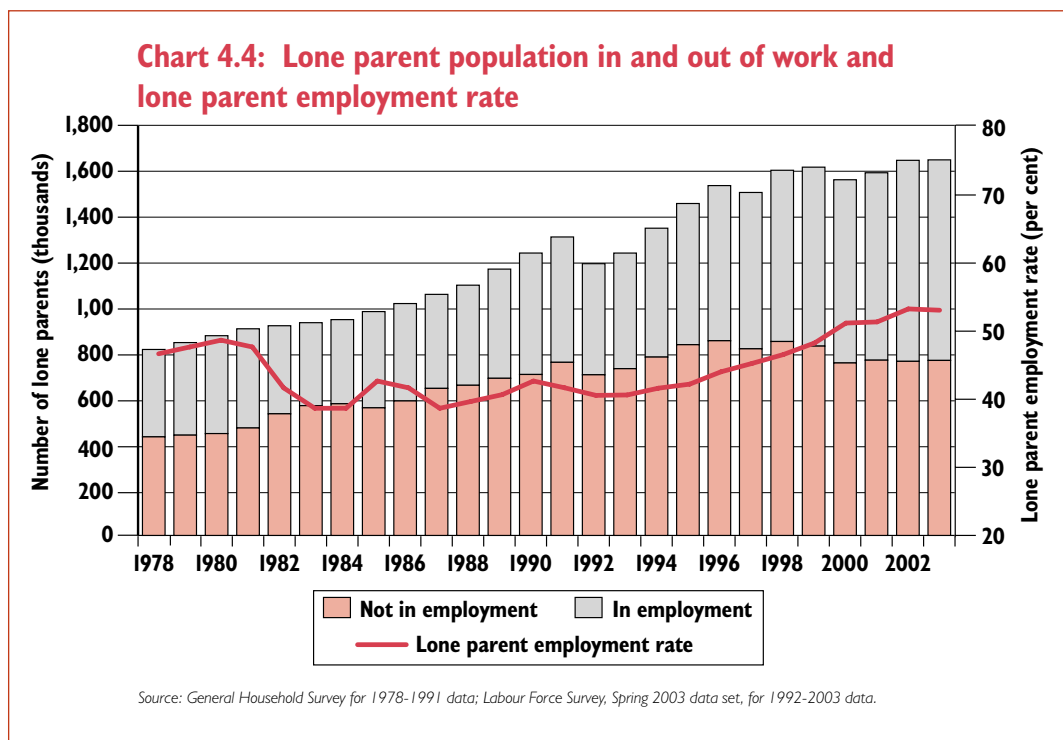
**4.31** The Government has already taken steps to extend the rights and responsibilities of JSA claimants on an equal basis. Since October 2002, childless partners of the unemployed, where at least one partner was born after 1957, have also become joint JSA claimants. The Government's long-term aim is to extend rights and responsibilities in the benefit system so that everyone has access to appropriate help and support, by introducing joint claims for all partners of JSA claimants, and for partners of those claiming Income Support. This long-term aim constitutes a significant reform that would mean that every partner in a couple becomes eligible for work-focused support that is appropriate to their individual circumstances. However, the Government recognises that there is further to go in modernising the benefit system to reflect today's society. The system of joint claims means that couples can nominate the partner to whom benefit should be paid, and the Government believes there is a strong case in principle for extending an individual's right to payment, as and when this is practical.

**Lone parents 4.32** Most of the 1.7 million lone parents in this country want to work. However, lone parents are less likely than mothers in couples to be in employment and more likely to be in poverty. Giving lone parents the opportunity to exercise informed choice over their decision to work, and the support they need to move into employment if they wish to do so, is key to the Government's aim of increasing employment opportunity for all and tackling child poverty. The Government's target is for 70 per cent of lone parents to be in work by 2010. Its strategy to achieve this target includes:

- work-focused interviews to ensure all lone parents are aware of the support available to them;
- tailored help and support through the NDLP for those who choose to look for work; and
- measures to ensure that moving into work pays, such as the WTC including help with childcare costs.

**4.33** In part as a result of the NDLP and other measures, employment among lone parents has risen substantially in recent years, as Chart 4.4 shows, to 53.4 per cent in spring 2003. The NDLP offers lone parents who choose to look for work a comprehensive package of support, including access to a personal adviser for all lone parents who are either not working or who are working fewer than 16 hours a week. Independent evaluation for the DWP concludes: “NDLP is cost effective and interim analysis suggests an economic gain to society of £4,400 per additional job and a net exchequer saving of just under £1,600 per additional job, and a substantial social benefit”.<sup>10</sup>

**4.34** Work-focused interviews ensure that lone parents are aware of the help and support available to them, and independent evaluation<sup>11</sup> shows that they have significantly increased participation in the NDLP while maintaining the rate at which participants find jobs. Since their introduction in April 2001, work-focused interviews have increased entry to the NDLP, with average monthly caseloads up by 15 percentage points and a 1 percentage point net impact on Income Support off-flows for stock claimants who have been on benefit for one year or more. The Government is continuing to roll out work-focused interviews to ensure that all lone parents are able to make informed choices about their labour market participation. The programme the Government has already announced will be fully rolled out in April 2006.



<sup>10</sup> *New Deal for lone parents: second synthesis report of the national evaluation*, Centre for Analysis of Social Policy, University of Bath (Evans, Eyre, Millar, Sarre), June 2003.

<sup>11</sup> *Integrated findings from the evaluation of the first 18 months of lone parent work-focused interviews*, DWP, March 2004.

**Box 4.2: The Government's approach to helping lone parents**

The NDLP is one of the most flexible and generous of all programmes, and at the heart of it is a highly personalised approach, individually tailored to meet a lone parent's needs to move into work. Evaluation evidence shows that this approach is very effective.

Moving into employment is dependent upon three factors: good information; addressing barriers to employment; and job search.

**Job information** is provided to lone parents through: compulsory work-focused interviews to ensure lone parents have the right information about what is available; a communications strategy which ensures that there are positive messages for lone parents about the benefits of work and for employers about this group of potential employees; mentoring targeted at lone parents furthest from the labour market; and Discovery Weeks, designed to boost soft skills such as the confidence of lone parents, and promote contact with local employers.

Lone parents who decide to join the NDLP have access to support from specially trained personal advisers in Jobcentre Plus in order to help them address their barriers to employment. The aim of the support is to develop a relationship based on knowledge of personal circumstances, building up lone parents' confidence in their ability to work.

This key relationship allows a tailored suite of measures to be developed. The type of help available may include: working towards **job readiness** through mentoring, confidence building and personal support; **building skills** through training (including a grant of £15 per week); access to NVQ level 2, and in some areas level 3; and in-work training through the Employment Retention and Advancement Demonstration (ERAD) project; **childcare**, including expert advice on local provision; childcare tasters; childcare while at interviews and on training; childcare in the week before starting work; extended schools pilots; and assistance with costs through the Adviser Discretionary Fund (ADF); **financial assistance**, for example through the 'better off in work' calculation; help claiming tax credits; the In-Work Emergencies Fund (in certain areas); ERAD (in certain areas); access to the ADF; debt advice; and from October 2004, access to the Job Grant; and **first weeks in work assistance**, for 28 days in all areas and more than 60 days in some areas; ERAD assistance for up to 2 years (in certain areas).

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

**4.35** The Government is determined to build on the success of its strategy to date. The New Deal for skills will particularly benefit lone parents. Furthermore, the Government is working with employers to implement a range of measures in six cities<sup>12</sup> with high lone parent populations, in recognition of the key role that employers play in helping lone parents into work.

<sup>12</sup> Birmingham, Glasgow, Leeds/Bradford, Liverpool, London and Manchester. See *Work Works – final report of the National Employment Panel's steering group on lone parents*, National Employment Panel and British Telecommunications, April 2003.

**4.36** As announced in Budget 2003, these measures include ‘Discovery Weeks’ designed to boost soft skills, such as confidence, and promote contact with local employers. The first Discovery Weeks successfully took place in London in November 2003 and the rest will be rolled out to the other five cities from April 2004. In addition, the Government now announces that **a further 15 Discovery Weeks will be introduced in London. Budget 2003 also announced that childcare tasters would be piloted in the six cities from April 2004.** These will allow lone parents on the NDLP to access formal childcare for up to one week, to test whether it suits their needs.

**4.37** The Government is reviewing the implementation of these measures and is building on early positive feedback by announcing further steps in the six cities. These will continue to develop the strategy of ensuring lone parents are informed about the opportunities available to them and have the support they require to maximise their potential in the labour market, and ensuring that local employers are fully engaged in this activity. **The new measures, to be introduced from October 2004, include:**

- **a new communications strategy** to ensure that lone parents in these areas are aware of the opportunities that work offers and of the full range of support available to them, and that employers have positive local examples of employing lone parents and adopting flexible working practices;
- **access to NVQ level 3 training in these areas**, in sectors where local employers identify a demand for skills and where routes into work may not have been traditionally accessed by lone parents, possibly including, for example, scientific and technical services. In addition NVQ level 3 training in childcare will be available to lone parents, as this is an area where there is an acute skills shortage that is critical to addressing barriers to work; and
- **enhanced support for the first two months that lone parents in these areas move into work**, including contact with personal advisers and access to funding, via the In-Work Emergencies Fund, to overcome barriers that might otherwise make it difficult to remain in work.

**4.38** In the 2003 Pre-Budget Report the Government announced the creation of extended school pilots in three areas. **The Government now announces its intention to seek a further four areas in which to establish extended school pilots from October 2004.** In these areas, with this improved childcare, worksearch premiums and in-work credits will also be available.

**Ethnic minorities 4.39** People from ethnic minority groups continue to face barriers to accessing and realising opportunities in the labour market, though there is significant variation in the labour market position of different ethnic groups. The Ethnic Minority Taskforce is taking forward the recommendations of the Prime Minister’s Strategy Unit report on the position of ethnic minorities in the labour market. In addition, Budget 2003 announced:

- **from April 2004, the introduction of specialist advisers in Jobcentre Plus districts with high ethnic minority populations;** and
- **a new policy fund of £8 million over two years** to help Jobcentre Plus managers provide local innovative solutions to helping people from ethnic minorities back into work.

**4.40** In recognition of the important role that employers play in enabling people from disadvantaged ethnic minority groups to overcome barriers to their participation in the labour market, the National Employment Panel ‘Fair Cities’ project has been investigating the scope for employer-led initiatives that could complement Government policies in this area.

**Budget 2004 announces that 'Fair Cities' initiatives will be established in three areas later this year,** to work with employers and other local stakeholders in order to develop strategies to improve employment outcomes for people from disadvantaged ethnic minority groups.

**Older workers 4.41** The Government is determined to increase employment opportunities for people aged 50 and over and has introduced a number of measures to help older people remain in or return to work. The New Deal for those aged 50 and over (ND50+) has improved back to work help and has helped to raise the employment rate of those aged between 50 and state pension age to 70 per cent. The Government is committed to opening up individual choice and is encouraging age positive employment practices and flexible approaches to retirement, to be backed by legislation from late 2006. **Budget 2004 announces a new high profile national guidance campaign to raise employers' awareness of, and ability to adopt, flexible employment and retirement opportunities in order to increase the recruitment, training and retention of older workers.**

## Diverse patterns of employment

**4.42** Each person seeking work can offer different skills and experience and has different requirements from work (for example, the need to fit working hours around family and care commitments). If employment opportunity is to be maximised, it is therefore essential to ensure that a diverse range of work is available. Greater flexibility around employment choices and the creation of a diverse workforce will help to ensure that the needs of both employers and employees are met, and that the labour market as a whole can adjust efficiently to changing economic conditions. The UK labour market shows a high degree of flexibility, demonstrated by, for example, a wide distribution of hours worked and a high incidence of part-time work.

**Self-employment 4.43** The Government offers a wide range of support to people moving from benefits into self-employment, including business advice, financial support through tax credits, and a 'test trading' period for those eligible for the New Deals or Work Based Learning for Adults. To ensure that all workless people are able to take full advantage of this support, the 2003 Pre-Budget Report announced **a review of the routes off benefits into self-employment to be carried out by the Small Business Service.** Interim findings will be available in the spring. The findings will inform the steps Jobcentre Plus and Business Link operators are taking to ensure that all workless people are able to take full advantage of the support available to them. These include, as announced in the 2003 Pre-Budget Report, **producing a leaflet signposting the support available, and developing arrangements for Business Link operators to market their services, and specialist support services, directly to Jobcentre Plus clients.**

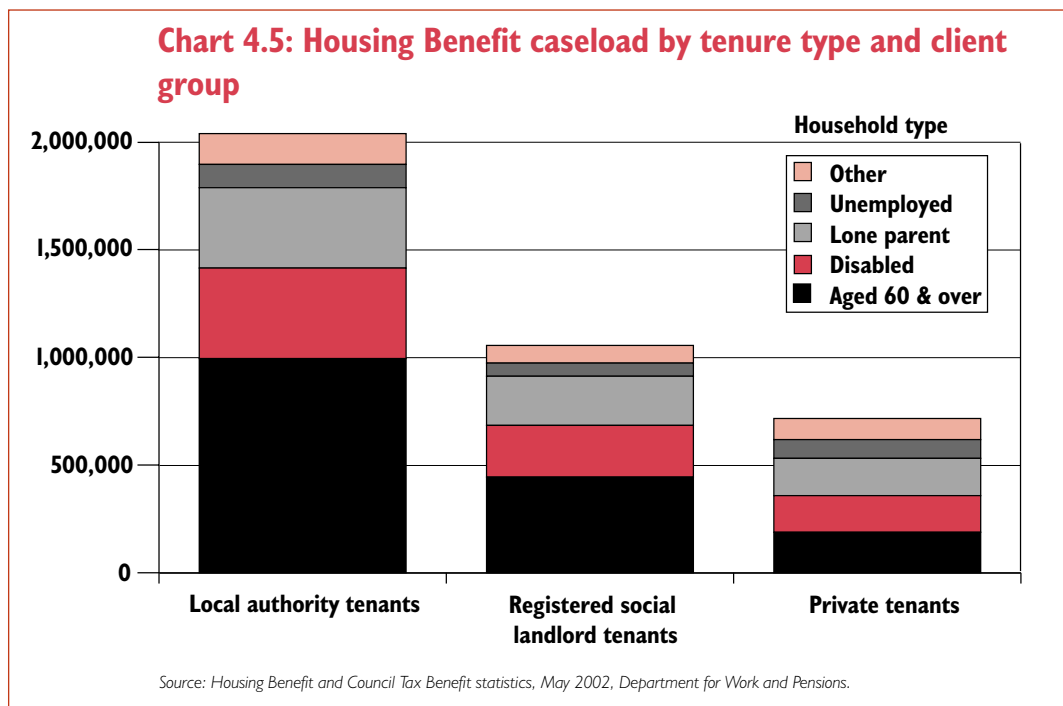
## Labour mobility

**4.44** The ease with which people are able to move within and between regions is a key indicator of the flexibility of the labour market. High geographic mobility implies that the workforce is able to respond quickly and easily to labour demand, contributing to achieving the Government's goal of full employment in every region. A highly mobile workforce improves the UK's ability to respond at a regional level to economic shocks which might otherwise lead to individuals' detachment from the labour market and increased long-term unemployment. The UK exhibits relatively low levels of geographic mobility, in part due to the way in which assistance with housing costs is provided. **The Government is therefore taking steps to improve the administrative interface between Jobcentre Plus and Local Authority housing departments, to facilitate moves from one area to another.**

**Reform of Housing Benefit 4.45** Housing Benefit provides help with rent to over 3.8 million low-income tenants, both in and out of work. Chart 4.5 shows the distribution of tenants by tenure type and client group. The current system of administration can be complex, both for claimants to understand their entitlement and how changing circumstances will affect the level of Housing Benefit they will receive, and for Local Authorities to deliver. The Housing Benefit reform programme is now well underway. It represents the most radical structural change to Housing Benefit since 1988 and comprises the following elements:

- streamlining and alignment of benefits to make claiming, changes of circumstance and means tests more transparent and closer to those for other forms of support;
- administrative improvement through the £200 million Performance Standards Fund;
- Pathfinder for flat-rate Local Housing Allowances (LHAs) in the private rented sector, leading to national roll-out; and
- development of pilots of flat-rate LHAs in the social rented sector.

**4.46** The Government is determined to build on the measures already introduced in Budget 2003 and the 2003 Pre-Budget Report to reduce the complexity surrounding the Housing Benefit system. Enabling Housing Benefit claimants to move more easily between locations will lead to greater choice for the individual over their accommodation and place of work. It will also promote increased flexibility and efficiency in the labour market as a whole, contributing towards the Government's objectives of increasing employment opportunity, reducing child poverty and tackling concentrations of deprivation.



**4.47** In administering Housing Benefit, Local Authorities can face overly complex rules, which frequently lead to delays in claimants receiving their payment and to varying levels of service across the country. To address the latter the Government already has in place the £200 million Performance Standards Fund; the average time to process a new claim has improved in just one year by around 5 per cent, compared to 2002-03. **The Government will introduce, from April 2005, a package of measures that will assist, for example, vulnerable students and children in pensioner households, as a first step in an overall programme designed to simplify the rules surrounding entitlement and take-up of Housing Benefit, and the way in which the rules align with those for other support such as tax credits and Pension Credit.** The measures will take account of the changes to Pension Credit backdating, described fully in Chapter 5.

**4.48** The Government has already made good progress towards simplification of the Housing Benefit system. Budget 2003 announced that the Government would introduce a LHA in nine Pathfinder areas for tenants in the private sector. All nine of the Pathfinders have now been rolled out, and potential barriers to implementation successfully overcome in each case. Initial evidence suggests that they have a high level of acceptance from tenants and local landlords and that they are already enabling tenants to exercise choice over their housing options. Subject to the evaluation evidence, the Government intends to roll out the flat-rate system throughout the country.

**4.49** In preparation for full national roll out of the private sector LHA system, **the Government intends to introduce a second round of Pathfinders from April 2005.** This will test the scope for rationalising the extent of the local areas to which various LHAs will apply, and will provide a further opportunity to adopt best practice in implementation before the system is introduced nationally.

**4.50** The 2003 Pre-Budget Report also announced that the Government will develop pilots of flat-rate LHAs in the social rented sector. These would give tenants more flexibility over where they live, enabling them to make economically rational choices to occupy properties which best suit their needs. Conditions in the social sector are different from those in the private sector: the pattern of rents is uneven, although rent reform is already addressing this; there is more limited choice available until choice-based letting is in place; and there are far more vulnerable tenants. The Government is considering all these factors carefully, and will continue to develop suitable pilots for the social rented sector.

## **RESPONSIVE AND FLEXIBLE DELIVERY**

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**4.51** While it is important that national standards of service provision are upheld, the Government recognises that specific barriers to work differ between local areas and individuals and may not easily be tackled with a 'one size fits all' approach. The Government wants to ensure that service providers are given sufficient flexibility and discretion to tailor policies to suit the specific needs of the community they serve. For people with multiple barriers to work or in concentrated areas of worklessness, in particular, there is a need to maximise local autonomy and accountability wherever possible.

## Service provision

**Jobcentre Plus 4.52** Jobcentre Plus was launched in April 2002, bringing together the Employment Service and those parts of the Benefits Agency dealing with working age people. Jobcentre Plus promotes work as the best form of welfare, helping unemployed and economically inactive people of working age move closer to the labour market and compete effectively for work. The nationwide rollout of this new business model represents a £2.2 billion investment in improved service and efficiency, taking Jobcentre Plus from around 1,500 local outlets to around 1,000 sites, supported by a new network of call centres. **The Government aims to complete the nationwide roll out in 2006.** Through this new network of offices Jobcentre Plus aims to offer a high quality, integrated, and accessible service to all its working age clients. Furthermore, and as Chapter 6 describes, new efficiencies over the period to 2008 will help deliver both a reduction in back room processing staff, and an increase in the number of front line personal advisers, thereby helping more people from welfare to work.

**Building on success 4.53** The Government intends to build upon the success of the New Deal by learning from the best of current provision and strengthening the New Deal's ability to help people who face particular difficulties in moving into employment. The Government will examine the range and availability of provision and the support needs of both unemployed and economically inactive people, integrating services within the New Deal to ensure that the full range of effective help is in place.

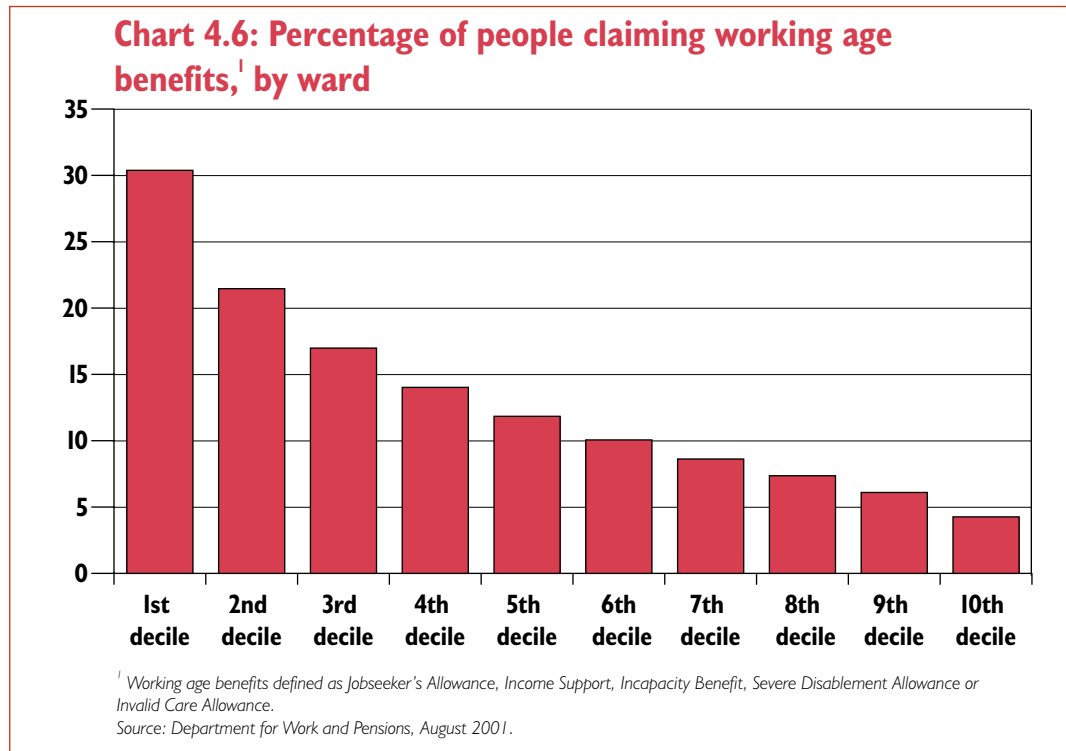
**4.54** The Government will consider the case for extending further flexibility to respond to the needs of individual clients and local areas, subject to the maintenance of high national standards, and in the context of the overall framework of rights and responsibilities of the national benefit system. The Government will also consider the scope for simplifying current processes to make systems easier for employers, clients, advisers and providers.

## Local responsiveness

**4.55** Despite the success of Government policy in raising the overall employment rate, local concentrations of unemployment and inactivity persist. As Chart 4.6 shows, more than 30 per cent of the population claim out of work benefits in the first decile of local authority wards, compared to under 5 per cent of the population in the tenth decile of wards. It is important that policy is delivered in such a way as to effectively address the problems of these areas, and help local and regional economies adjust to change.

**4.56** As noted earlier, the Government set out its strategy for tackling areas of disadvantage and concentrations of worklessness in *Full employment in every region*, published alongside the 2003 Pre-Budget Report. *Devolving decision making: 2 – meeting the regional economic challenge; increasing regional and local flexibility*, published alongside the Budget, sets out the rationale for devolving more responsibility to regional and local levels in order to tackle geographical variations in economic growth, and describes delivery of the Government's labour market policy in the context of devolved decision-making more generally.

**Concentrations of worklessness 4.57** Recognising the importance of flexible regional and local employment programmes, the Government announced in the 2002 Pre-Budget Report **the introduction from April 2004 of Working Neighbourhoods pilots, to provide a programme of intensive support in 12 neighbourhoods with very high concentrations of worklessness, helping local residents access jobs which may often be within travelling distance of where they live.** The pilots will test new approaches, combining earlier and more intensive intervention, community-based delivery and additional resources to help overcome barriers to employment. The help provided by each pilot will be determined locally, in consultation with local partners, to reflect local needs.



**Action Teams 4.58** Action Teams for Jobs focus on the long-term unemployed and inactive, using innovative methods to address specific local barriers to work in 63 disadvantaged areas of the UK, many of which contain large ethnic minority communities. Action Teams have helped almost 97,000 people into work. The 2003 Pre-Budget Report announced that, **from April 2004, the 63 existing Action Teams will be extended to 2006 with two additional Action Teams introduced in Wear Valley and Barrow-in-Furness, and Jobcentre Plus District Managers and Action Team contractors will have greater discretion to direct resources towards the most disadvantaged people in their area.**

**Employment Zones 4.59** Employment Zones, which provide personal advisers with complete discretion over funds to overcome individual barriers to work, have already helped over 44,000 long-term unemployed people aged 25 and over back into work in 15 areas of England, Scotland and Wales. Budget 2003 announced further steps to build on this success, including:

- **from April 2004, replacing the NDLP in the five London Employment Zones and for lone parents returning for a second or subsequent work-focused interview in the other Zones; and**
- **to make the most effective use of resources through the use of multiple providers, from April 2004, multiple providers will be introduced in the five London Zones, as well as in Birmingham, Liverpool and Glasgow.**

## MAKING WORK PAY

**4.60** Through the National Minimum Wage and tax credits, the Government has created a system of in-work support that provides greater rewards from work. The Government's strategy to make work pay has improved incentives for individuals to participate and compete in the labour market, making it more flexible and dynamic. Making work pay tackles two key problems:

- the unemployment trap, when those without work find the difference between in-work and out-of-work income too small to provide an incentive to enter the labour market; and
- the poverty trap, when those in work have limited incentives to increase their hours or to move up the earnings ladder because it may leave them little better off.

#### The National Minimum Wage

**4.61** The National Minimum Wage guarantees a fair minimum income from work. In October 2003, the rate for adult workers aged 22 or over was increased to £4.50 an hour; the youth and development rate, for workers aged between 18 and 21 or in approved training, rose to £3.80.

**4.62** On 15 March 2004 the Government published the Low Pay Commission's (LPC) 2004 Report, in which the LPC reviewed the recommendation made last year to increase the adult and youth rates to £4.85 and £4.10 respectively from October 2004. The LPC found that the economic outlook had improved since the time of its Fourth Report and noted that "*the labour market remains remarkably robust*".

**4.63** In the light of the LPC's evidence that the National Minimum Wage has had no discernible negative impact on overall employment, inflation or the wider economy, the Government has accepted the LPC's recommendation. **From October 2004, the adult rate of the National Minimum Wage will therefore rise to £4.85 and the youth and development rate will rise to £4.10.** The ONS estimates that between 1.6 and 1.9 million low-paid workers will benefit from the new rates of the National Minimum Wage.

**4.64** In July 2003, the Government asked the LPC to consider the case for a minimum wage for 16 and 17 year olds, in the context of education and training objectives. The Government believes that it is wrong to allow 16 and 17 year olds in employment to be exploited through low wages. The LPC has presented strong evidence that a cautious minimum wage rate would prevent the worst exploitation of young people, without discouraging participation in education or training. **The Government has therefore accepted the LPC's recommendation that 16 and 17 year olds should be covered by a new National Minimum Wage of £3.00 an hour, from October 2004.** The existing exemption from the minimum wage of apprentices aged under 19 will be retained. The review of financial support for 16 to 19 year olds is covered in detail in Chapter 5.

#### The Working Tax Credit

**4.65** The WTC provides support on top of the earnings guaranteed by the National Minimum Wage, tackling poor work incentives and persistent poverty among working people. By January 2004, 2.3 million families and low-income working households were benefiting from the WTC. There were 70,000 families benefiting from the disabled worker element of the WTC, 87 per cent higher than the number who received support through the Disabled Person's Tax Credit (DPTC). The number of families benefiting from the childcare element of the WTC had reached 300,000 by January 2004, 67 per cent higher than the 180,000 families who benefited from the childcare component of the WFTC.

**4.66** Table 4.1 shows that, since the introduction of the National Minimum Wage in April 1999 and the WFTC in October 1999, the Government has increased the minimum income that people can expect when in work, thereby reducing the unemployment trap.

**Table 4.1: Weekly minimum income guarantees**

	April 1999	October 1999	October 2004
Family <sup>1</sup> 1 child, full-time work (35 hours)	£182	£200	£252
Family <sup>1</sup> 1 child, part-time work (16 hours)	£136	£144	£195
Single person, no children, 25 or over, full-time work (35 hours)	£113	£113	£164
Couple, no children, 25 or over, full-time work (35 hours)	£117	£117	£193
Disabled person (single), working full-time (35 hours)	£139	£155	£204
Disabled person (single), working part-time (16 hours)	£109	£112	£148

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.

<sup>1</sup> Applies to one parent families and couples with children alike.

**4.67** The Government's reforms are also tackling the poverty trap, ensuring that workers have improved incentives to move up the earnings ladder. 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 benefit or tax credits.

**4.68** Table 4.2 shows that, as a result of the Government's reforms, nearly 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 <sup>1</sup>	Before Budget 1998	2004-05 system of tax and benefits
Over 100 per cent	5,000	0
Over 90 per cent	130,000	40,000
Over 80 per cent	300,000	190,000
Over 70 per cent	740,000	265,000
Over 60 per cent	760,000	1,700,000

<sup>1</sup> 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 2004-05 system of tax and benefits is based on 2002-03 caseload and take-up rates, and projected caseload estimates of Working Tax Credit and Child Tax Credit in 2004-05 are based on October 2003 administrative data.

**4.69** Table 4.2 does not take into account the effect of the disregard, for the current year's award, of the first £2,500 of an income rise compared with the previous tax year. The disregard ensures that families do not see their tax credit awards reduced until their income increases by more than £2,500, so the effective MDR in any one year is reduced. However, the system responds in full to falls in income as soon as they are identified, ensuring that extra support is provided to families when they need it most.

## FUNDING FOR WELFARE TO WORK

**4.70** The DWP delivers the majority of the Welfare to Work programme, which is funded by the one-off Windfall Tax on the excess profits of the privatised utilities together with resources allocated in the 2002 Spending Review. The DWP annual report sets out expenditure plans and outturn information. Table 4.3 sets out that element of the Welfare to Work programme funded by 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 <sup>2,3</sup>	2004-05 <sup>2</sup>	2005-06 <sup>2</sup>	TOTAL
<b>Spending by programme<sup>1</sup></b>										
New Deal for young people <sup>4</sup>	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 <sup>5</sup>	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 <sup>6</sup>	0	20	10	5	0	0	0	0	0	35
University for Industry <sup>7</sup>	0	5	0	0	0	0	0	0	0	5
Workforce development <sup>8</sup>	0	0	0	0	0	40	50	150	80	320
ONE pilots <sup>9</sup>	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
<b>Total Resource Expenditure</b>	<b>50</b>	<b>260</b>	<b>480</b>	<b>560</b>	<b>570</b>	<b>700</b>	<b>530</b>	<b>150</b>	<b>80</b>	<b>3,380</b>
<b>Capital expenditure<sup>10</sup></b>	<b>90</b>	<b>270</b>	<b>260</b>	<b>750</b>	<b>450</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,820</b>
<b>Windfall Tax receipts</b>	<b>2,600</b>	<b>2,600</b>								<b>5,200</b>

<sup>1</sup> 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.

<sup>2</sup> Figures are provisional for the years from 2003-04 to 2005-06.

<sup>3</sup> 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.

<sup>4</sup> Includes funding for the Innovation Fund.

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

<sup>6</sup> 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.

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

<sup>8</sup> Includes £290 million funding for Employer Training Pilots.

<sup>9</sup> Funding for repeat interviews. Other funding is from the Invest to Save Budget.

<sup>10</sup> Includes capital spending on renewal of school infrastructure, to help raise standards.