

Chapter Two

More people in work

More people are employed than ever before – 2 million more than in 1997. We are on the verge of achieving our initial aspiration of having at least 75 per cent of the working-age population in work. The next stage will be even more stretching with a **long-term aspiration of moving towards an employment rate equivalent to 80 per cent of the working-age population** – a rate beyond any we have ever seen. This is a modern vision of full employment and it involves helping more people into work, including those outside the traditional definition of unemployment, and enabling people to work for longer. This will help us support an ageing population.

In order to extend employment opportunity to everyone, we will:

- complete the roll-out of Jobcentre Plus, which provides employment support, regardless of the benefit that the person is receiving;
- further develop our employment policies for groups traditionally defined as being outside the labour market. Those raising children, especially lone parents (Chapter Three), people on incapacity benefits (Chapter Four) and older workers (Chapter Five) must be supported in their desire to work;
- ensure people from ethnic minorities and from the poorest areas benefit from economic growth;
- support people with low skills to enter the labour market; and
- improve the benefits system to provide the right incentives, for example reforming Housing Benefit to empower individuals, and improve work incentives.

Introduction

10. Our objective is to achieve employment opportunity for all through high and stable growth and by providing people with effective help to find work. Before 1997 the UK economy was prone to large fluctuations in output and inflation, causing uncertainty for firms and individuals alike and damaging the economy's long-term growth potential. During this cycle of boom and bust, unemployment topped 3 million, long-term youth unemployment hit 300,000, and the numbers on incapacity benefits trebled. The social and economic cost of millions unable to work and fulfil their potential, combined with the costs of higher numbers reliant on benefits, meant welfare to work reform was a priority in 1997.

11. Since 1997 the Government has delivered macroeconomic stability, invested in active labour market policies, developed tax and benefit reforms to ensure that work pays, invested in skills and delivered a flexible labour market. This has helped to reduce the costs of economic failure. The Government spends £5 billion less on unemployment-related benefits than in 1997.

The New Deal

12. Since 1997, our investment in active labour market policies has achieved significant results, felt right across the country. The New Deals focus on what the individual needs in order to get a job and have helped over 1 million people into jobs.

- **New Deal for Young People** – since being launched in 1998, the programme has supported over 535,000 young people into jobs.

- **New Deal 25 Plus** – since being launched in 1998, the programme has so far supported over 204,000 people into work.
- **New Deal for Lone Parents** – over 296,000 lone parents have found work through the programme since 1998.
- **New Deal 50 Plus** – since it was introduced in April 2000, we estimate that in the region of 150,000 jobs have been gained through the programme.
- **New Deal for Disabled People** – the programme supported over 46,000 disabled people into work between July 2001 and September 2004.
- **New Deal for Partners** – this is a smaller programme, which has supported approximately 2,000 people into work since 1999. It was extended in 2004.

Jobcentre Plus

13. We have also revolutionised the way work and benefits support is delivered through the new Jobcentre Plus network. For the first time, getting benefits has been combined with a strong work

focus. Everyone has a personal adviser who offers tailored support and ensures that individuals meet their responsibilities to look for work in return for receipt of benefit. This approach is about a new relationship between the citizen and the welfare state: a relationship that is active not passive, about responsibilities not just rights, support not just benefit, and individual services not just lumping people together.

14. The establishment of Jobcentre Plus is a unique change, and provides the platform on which we can increase our support for all regardless of which benefit they receive, particularly for those who are economically inactive and on benefit, such as lone parents and those on incapacity benefits. We have opened over 500 new Jobcentre Plus offices integrating benefit payment with help in finding work.

The result

15. As a result of this investment and reform, the UK now has one of the strongest labour markets in the world: with more people in work than ever before; one of the highest employment rates in our history, 2 million more than in 1997; and the best combination of employment and unemployment among the G7 major industrialised countries (Figures 8 and 9).

Figure 8: Falling unemployment, rising overall employment¹²

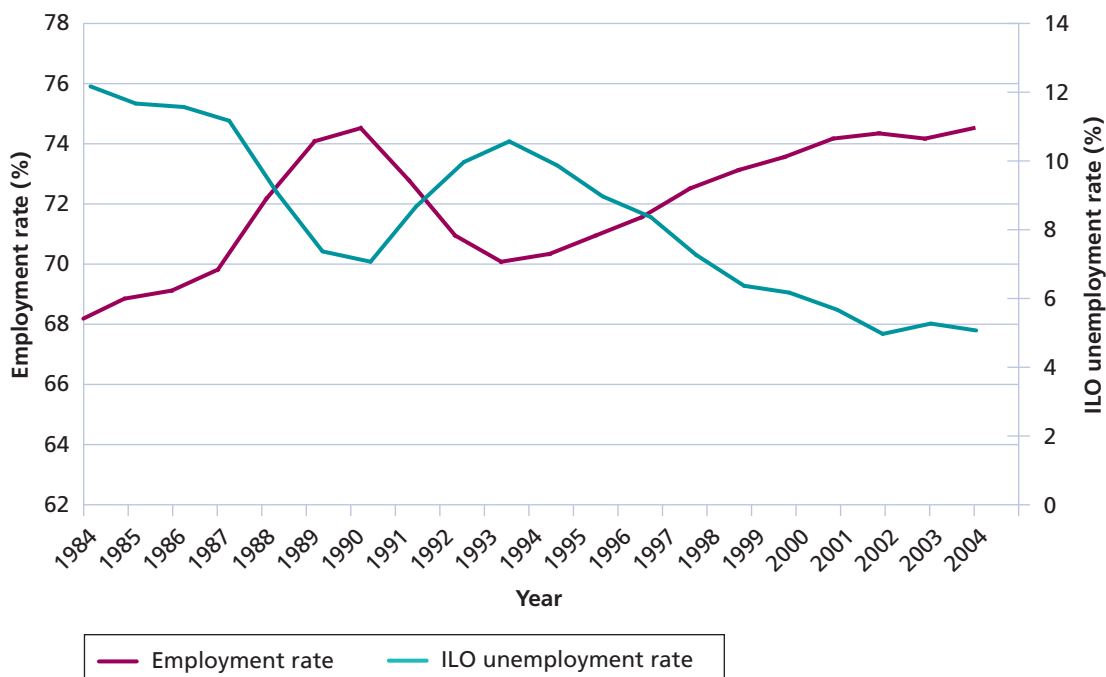
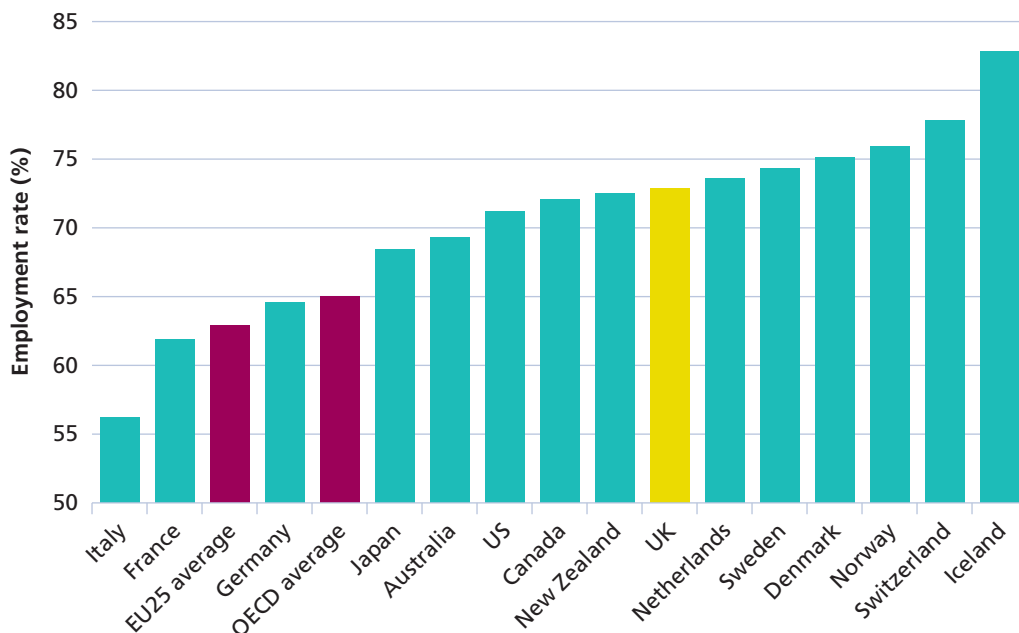


Figure 9: Employment rates in comparison with the UK¹³



12 Source: Labour Force Survey, May–July 1997 to February–April 2004, aged 16 to State Pension age (latest available data).

13 Source: OECD (2004) and Eurostat (2004). Figures relate to persons aged 15–64 (2003) except UK, US, Sweden, Iceland and Norway (16–64) and Iceland (2002).

16. Furthermore:

- **The fall in the number of people on out-of-work benefits is approaching 1 million.** In August 1997 there were 5.47 million people of working age claiming out-of-work benefits. In August 2004 there were 4.52 million.
- **Youth long-term claimant unemployment has been virtually eradicated.** The UK currently has just 6,600 young people aged 18–24 who have been unemployed for a year or more, compared with more than 300,000 at the peak in the mid-1980s.
- **Adult long-term unemployment has been reduced by around 75 per cent since 1997.** There are now 121,100 adults who have been unemployed for a year or more, compared with 1 million at the peak in the mid-1980s.
- **Lone parent employment is over 50 per cent for the first time ever.** There are now nearly 1 million lone parents in work, while the number of lone parents claiming Income Support has fallen by 20 per cent over this period.
- **The numbers on incapacity benefits have now peaked.** The total number of people claiming incapacity benefits has peaked after two decades of substantial growth. More is being done to help people in the *Pathways to Work* pilots.
- **The number of women in work has risen by 1 million since 1997.** There are more women in work than ever before, and at 70 per cent the UK has one of the highest female employment rates in the world. Since 1997 the gap between the male and female employment rates has narrowed by 1.2 percentage points.

The next step – an aspiration of an employment rate equivalent to 80 per cent

17. When we have reached the milestone of having at least 75 per cent of the population of working age in work – not just in one year, but year on year – we will not stop. We are determined to

go much further and will set a new aspiration of moving towards the equivalent of 80 per cent of the working-age population in work.

To make work possible for more people and to eliminate pockets of marginalisation, we will create an opportunity society not just for people who are traditionally considered to be part of the workforce but for all adults.

Employment opportunity for all: definition of the aspiration of an employment rate of the equivalent of 80 per cent of the working-age population in work

- The Government is committed to high and stable levels of growth and employment in order to deliver employment opportunity for all – the modern definition of full employment. We have previously set out our long-term employment ambition:

By the end of the decade, there will be a higher proportion of people in work than ever before, on a sustainable basis.¹⁴

- We have now largely met this ambition, with working-age (16–59/64) employment now within a whisker of 75 per cent; youth (18–24-year-olds) long-term claimant unemployment (one year and over) virtually eradicated; and overall long-term claimant unemployment down to fewer than 130,000 – 10 per cent of the peak of 1.3 million reached in 1986.
- However, there are economic and social imperatives to go further. Increasing the employment rate will help to support an ageing society. It would also provide the opportunity to promote the fairness agenda by helping more people from welfare to work and increasing the employment rates of disadvantaged groups and areas. It is, therefore, time to move towards a raised aspiration of high and fair levels of employment.
- The forthcoming equalisation of the State Pension age and the increasing number of people who choose to work past the State Pension age means that we need to consider whether the current definition of the employment rate will remain the most appropriate for the future.

¹⁴ *The Changing Welfare State: Employment Opportunity for All*, DWP, November 2001.

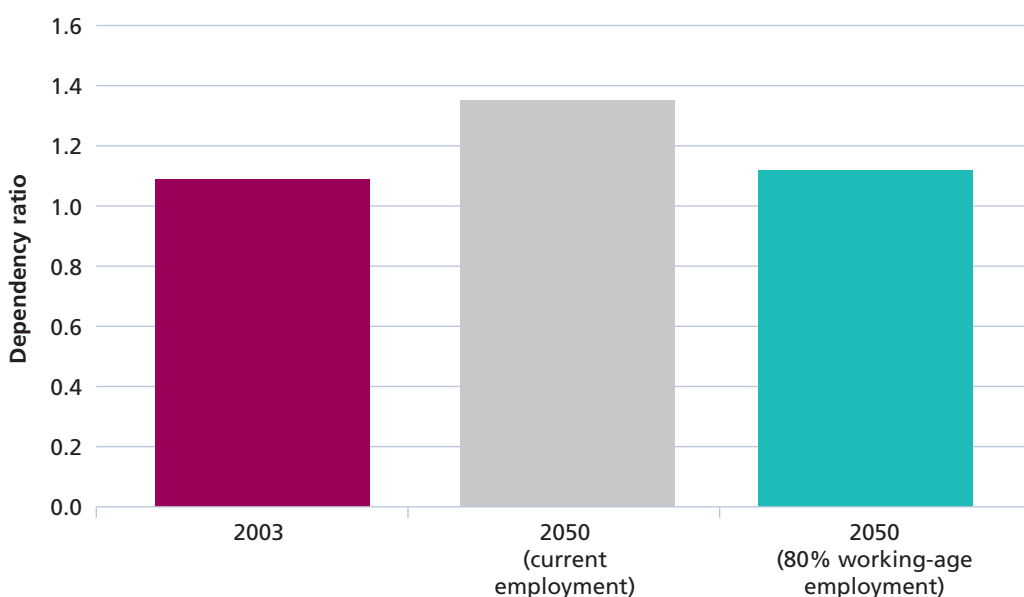
- The equalisation of the State Pension age will see the definition of working age in the UK change from 16–59 for women and 16–64 for men to 16–64 for all by 2020. Reflecting this change in the employment rate statistics would bring the UK into line with international practice. The working-age employment rate on this basis is 73.1 per cent rather than 74.7 per cent.
- We also need to recognise that there are already 1 million people above the current State Pension age in work (including around half a million people aged 65 or over). This trend will continue as we seek to promote employment opportunities among those close to or above the State Pension age.

We propose to engage with the Office for National Statistics and other key stakeholders in order to review the current definition of the employment rate and to set out proposals subsequently for defining progress towards our aspiration of an 80 per cent employment rate.

18. The potential impact of a higher employment rate on economic dependency is significant, though the precise impact depends on how this is measured. If we adopt the broadest measure possible – the ratio of non-workers to workers – an employment rate equivalent to 80 per cent of the working-age population would virtually fully offset the rise in the dependency ratio between now and 2050. This is shown in Figure 10.

19. Achieving an overall employment rate of 80 per cent would smash all existing records. We estimate that to achieve 80 per cent we will need to help another 2.5 million people into work. Because of the success in reducing unemployment since 1997, the majority of people not in employment are economically inactive as distinct from the traditionally defined unemployed. They are therefore further away from the labour market. This does not mean that they do not want to or cannot work – given the right specialised and tailored support many can and want to.

Figure 10: Impact of higher employment on UK dependency ratio (non-workers compared with workers)¹⁵



¹⁵ Source: DWP estimates, based on Government Actuary's Department principal 2003-based projections.

20. We are learning from the experiences of other countries which have higher employment rates than our own. Sweden is one of the few industrial countries with a higher female employment rate than us. Sweden has a particularly good childcare system and we believe that our ambitious plans to extend childcare will encourage more married women and lone parents into work, and thereby boost the overall employment rate.

21. The rest of this chapter sets out our plans to extend the support offered by Jobcentre Plus and the New Deal, prevent exclusion from the labour market, bring down barriers that stop people working, and equip people to progress once they have a job. In the following chapters we set out what achieving our employment rate equivalent to 80 per cent could mean for specific groups.

- Chapter Three sets out our plans to help 300,000 lone parents into work.
- Chapter Four outlines our further steps to achieve our long-term aspiration of reducing the number of incapacity benefits claimants by as many as 1 million by helping more people to move from benefit into work.
- Chapter Five identifies the right of older workers to continue working if they want to and how government and society can help.

Completing the roll-out of Jobcentre Plus

22. We will complete the roll-out of the Jobcentre Plus network across Great Britain in 2006 and tailor – even more closely – help to the individual. Jobcentre Plus will continue to work in partnership with thousands of not-for-profit and private sector organisations to deliver its objectives, in particular in helping customers to address their barriers to work. This will be done in our new modern offices where clients are treated with respect.

23. Jobcentre Plus has established an account management structure to serve employers. It is now developing targeted long-term strategic relationships with key employers, private recruitment bodies and diversity bodies.

Building on New Deal

24. We will also extend the successful New Deal so that we tailor the support we give people. Our ‘Building on New Deal’ approach will:

- replace current employment programme provision with a wide range of modular provision that caters for all client groups, so that individuals can access training and support tailored to their needs;
- build on existing specialist support for the most disadvantaged; and
- devolve more power to Jobcentre Plus district managers and personal advisers to choose provision to meet local and individual requirements and allow them to work imaginatively with local partners.

We will test the delivery of our new services in prototype areas, beginning in late 2005, with roll-out across the country at a later date.

Preventing exclusion from the labour market

25. We are determined to ensure that no one is excluded from the labour market through disadvantage. There remain discrete groups that have higher rates of unemployment than most, and we will further develop our labour market support to tackle the particular problems they face.

Ethnic minorities

26. The ethnic minority employment rate is rising, and the gap with the overall population is narrowing. Latest data¹⁶ show that the ethnic minority employment rate has risen by 1.8 percentage points since spring 2003,¹⁷ but at 59.6 per cent is still far too low and 15.3 percentage points lower than the overall employment rate. The ethnic minority employment rate increase represents around 60,000 more ethnic minority people in employment, in terms of the current working-age population.

27. Our strategy is underpinned by a Public Service Agreement target to raise the ethnic minority employment rate, and narrow the gap between the ethnic minority employment rate and the overall rate. Ethnic minorities are hugely diverse and a large part of our response must be to increase flexibility to tailor programmes to the needs of particular minorities in particular areas.

Paula Vika's story

Paula Vika arrived in the UK from Angola in 1999. She has won a prestigious Prince's Trust East of England award for setting up her own hairdressing business named Hair Design. When Paula arrived in the UK she visited Great Yarmouth Jobcentre. Tom Adams, a New Deal for Lone Parents adviser, referred her to Great Yarmouth College to study IT as well as English and Spanish-language speaking courses.



Once Paula had joined the New Deal for Lone Parents programme, she took further courses recommended to her by Tom. He also referred her to Norfolk and Waveney Enterprise Services where she was supported by The Prince's Trust. Paula's business was soon established and now her business is running from the Fitness Exchange – part of the modern Norwich Riverside complex. She has taken on an employee and is looking at taking on people who wish to gain work experience.

Image (by Rankin) is part of a photographic exhibition currently touring the UK. The exhibition documents 21 exceptional stories that celebrate 21 years of young people who have overcome barriers to start up in business with The Prince's Trust. Supported by the RBS Group.

28. We will champion a cross-government strategy through the Ethnic Minority Employment Task Force to tackle the main factors in ethnic minority employment disadvantage. We will also:

- focus resources in areas of high unemployment with higher numbers of ethnic minorities;
- increase flexibility to allow managers to develop local responses to the needs of particular ethnic minority groups, for example through the Ethnic Minority Flexible Fund. From spring 2004, district managers have had access to this £8 million fund, which allows them to use their local knowledge to implement ideas to resolve some of the issues preventing ethnic minority people from finding work;
- increase Jobcentre Plus' capacity to tackle employer discrimination and promote the recruitment of ethnic minorities, for example through specialist employment advisers;
- following the Budget announcement in 2004, work with employers and other local stakeholders through the 'Fair Cities' initiative to develop local strategies to tackle ethnic minority worklessness; and
- find ways to get our message through to people who, for whatever reason, are out of the loop of current employment help.

29. We also recognise the need to ensure that New Deal and other mainstream labour market and enterprise support meet the needs of ethnic minority clients, and that proper lessons are learnt from targeted initiatives. The National Employment Panel, working with the Ethnic Minority Business Forum, will report by Budget 2005 on measures to encourage employment, self-employment and the growth of small business for ethnic and faith minority groups.

¹⁶ Four-quarter average autumn 2004.

¹⁷ Baseline for our Public Service Agreement.

People in disadvantaged areas

30. The UK has high employment across the country. Yet, despite having one of the best labour markets in the world and one of the highest employment rates ever, there are pockets of deprivation where worklessness continues to be a substantial barrier to social inclusion. These pockets of deprivation, which often cover an area smaller than a local authority district (LAD), exist side by side with areas of affluence. From 2005 we will move our focus from the 30 most disadvantaged local authority areas to 903 individual wards to ensure that effort is more effectively targeted at the greatest deprivation.

31. Our strategy is threefold:

- Firstly, we seek to evolve national programmes to meet the needs of deprived areas more effectively. Residents of deprived areas are more likely in any event to benefit from programmes such as the New Deals.
- Secondly, we are using specific programmes to seek new ways of addressing area-based disadvantage in the labour market. In particular, Employment Zones, Action Teams for Jobs and the Working Neighbourhoods pilots are developing new approaches to reach and help local residents who are not in work.
- Thirdly, partnership working is key to rebuilding deprived communities. We are working at local level to build partnerships that will develop local solutions to problems, extending the reach of our programmes and identifying new ways of bringing together funding from a wide range of budgets, for example through local area agreements.

Particularly disadvantaged groups

32. We will continue to develop additional support targeted at those with specific or multiple needs and where only joined-up interventions across a number of departments and agencies are likely to be effective: ex-offenders, those with drug or alcohol problems, the homeless, and refugees. We will develop a national strategy for these 'most disadvantaged' groups, supported by local delivery plans, to ensure that these groups increasingly benefit from our welfare to work policies.

Removing barriers to work in the benefits system

33. We are committed to addressing the potential barriers for people seeking to enter the labour market. These include complexity and financial disincentives. We will make work possible, and we also need to make work pay.

Housing Benefit

Anxiety, born of uncertainty and processing delays, is a big deterrent to taking up employment. The new Local Housing Allowance is helping to remove this barrier.

34. Work incentives in the tax and benefit system have been improved, but the current structure and operation of Housing Benefit can still be a disincentive to work. Anxiety, born of uncertainty and processing delays, is a big deterrent to taking up employment. Social housing tenants depend on Housing Benefit and are disproportionately likely to experience further disadvantage.

35. The new flat-rate Local Housing Allowance promotes personal responsibility and choice by allowing tenants to choose how much of their income to spend on housing, and by paying the allowance direct to the tenant rather than to the landlord. The reformed system is simpler, with no need for rent officers to assess the individual property, a process that can cause delays. Where tenants are able to find accommodation that is

cheaper than their Local Housing Allowance entitlement, they keep the difference. The reformed scheme has been implemented for private sector tenants in nine local authorities starting between November 2003 and February 2004. We will extend the Local Housing Allowance to all tenants in the mainstream private rental sector by March 2008, informed by the evaluation of the current pathfinder areas.

36. We will also introduce pilots to test out the development of a Local Housing Allowance for tenants in housing association and council properties. We want to extend the same opportunities for people to make choices about their housing, and to simplify the current system. We recognise that conditions are different from the private rented sector (especially in London) and so we need to proceed carefully, working closely with key stakeholders in the social rented sector.

37. Alongside the Local Housing Allowance, we are implementing a package of simplification measures, aimed at stripping out complexities in the Housing Benefit rules and at achieving alignment with other forms of support. We also wish to overcome the disincentives to work faced by families who have experienced homelessness. We are considering testing new approaches with households in temporary accommodation so that high rents in the private sector do not create disincentives to work for those on Housing Benefit. In taking this forward we will make sure that the system as a whole fully protects the disposable income of these in temporary accommodation.

38. We are continuing to work with local authorities to improve the administration of Housing Benefit. The average time taken to process a new claim has improved by nearly two weeks since 2000/01. The most significant improvements have been in those authorities which previously had the poorest performance. Further improvements will be secured as Jobcentre Plus and The Pension Service develop ways of gathering information from customers in support of Housing Benefit claims, and sending this to the local authority. We are developing modernised methods of data exchange between the Department and local authorities, using web-based technology.

Complexity

39. We are exploring and developing ways to simplify benefits while continuing to protect social security expenditure. We want to ensure that they provide the best support for helping people into work while protecting the position of those in greatest need. We want to improve the financial incentives to work for some groups, to strengthen the incentives to seek work, and to save for retirement for all groups. We are looking at the interaction between the benefits system and other forms of support.

Equipping people to remain and progress in the labour market

40. We want to support people to take up jobs and remain in employment. Our tailored support to individuals enables us to achieve this goal.

Skills

41. Over the past two decades, there has been a sharp rise in the skill premium, increasing the importance of education and skills. In the future, the demand for skills is likely to grow and continue to evolve. While the proportion of people in the UK with higher skills levels compares well internationally, the share of the workforce with intermediate skills is relatively low. The unemployment rate of people with low or no qualifications is about double that of the working population as a whole.

42. The New Deal for Skills was announced in the 2004 Budget. It will help meet the Government's ambition to reduce the number of adults with low or no skills and help employers to improve the skills of their workforce. It will complement current Jobcentre Plus New Deal programmes and enable personal advisers to distinguish better between clients who already have the skills necessary to get jobs and those who need the chance to develop their skills further. This will include:

- the development of a skills-coaching service to ensure that adults with low skills can access the skills advice and support they require to improve their chances of sustained employment;

- the introduction of ‘skills passports’ to provide individuals with a simple and portable way of recording the skills and competencies gained and to support the transfer of skills between jobs; and
- better joint working between Jobcentre Plus offices and local Learning and Skills Councils and their devolved counterparts in Scotland and Wales, to offer a more effective and integrated skills service to individuals and employers.

43. As announced in the November 2004 Pre-Budget Report, we will test the effectiveness of increased access to full-time training for low-skilled inactive benefit recipients and jobseekers, by piloting additional financial support for those acquiring skills where this is judged as being the best way of helping them into work. At the same time we will make changes to the current study rules for jobseekers to ensure that independent part-time study is genuinely part-time and does not hamper jobsearch activity.

44. In February the Government will publish a Skills White Paper. This will continue to focus on ensuring that employers have the right skills to support the success of their business and that individuals have the skills they need to be employable and personally fulfilled.

