

Executive summary

Opportunity and security throughout life

1. During the 1980s and 1990s unemployment peaked at 3 million and the numbers on incapacity benefits trebled. By 1997, one in three children and 2.7 million pensioners were living in absolute poverty. Since 1997, the Government's priority has been to tackle the scourge of unemployment, inactivity and poverty through investment in and reform of the welfare state.

2. Today, Britain is working again. The welfare state is being transformed from a passive one-size-fits-all model to an active system that delivers both rights and responsibilities, tailoring help to the individual and providing the skills people need to move from welfare and into work.

3. Thanks to the creation of a stable macroeconomic framework, Jobcentre Plus and investment in the New Deal, unemployment is at its lowest for 30 years and we have the highest employment rate of any of the G7 countries. With more people in jobs than ever before, we now spend £5 billion less on unemployment benefits than we did in 1997.

4. Record increases in support for children, and better childcare to enable parents to work, mean that there are now 600,000 fewer children living in relative poverty. Thanks to a higher basic State Pension, the Winter Fuel Allowance, and the introduction of the Pension Credit, more money is going to all pensioners but most is going to the poorest. The new Pension Service is delivering all of these as the first-ever dedicated service for pensioners. Already, we have lifted 1.8 million out of absolute poverty and we have the policies in place to go further.

5. But today Britain also faces the challenge of a society that is getting older. The welfare state of the 20th century was designed to provide support from the cradle to the grave. In the future, the period between the cradle and the grave is going to become longer, healthier and more active as the demographic profile of Britain changes. By 2007, the number of people over State Pension age will overtake the number of children.

6. We now need to meet this challenge by building on our success to achieve an even fairer, more inclusive society in which all individuals can make the most of their potential, and in which child and pensioner poverty are consigned to the past. Employment is at the heart of our approach – as through work, people can lift themselves and their children out of poverty and save towards a secure retirement.

A modern vision of full employment

7. With unemployment at a 30-year low and 2 million more people employed than in 1997, including 1 million more women, we are on the verge of achieving at least three-quarters of the working-age population in work. But to meet the ageing challenge, we need to go further. That is why we set out in this Strategy the **aspiration of an employment rate of 80 per cent**. This is a rate beyond any we have ever seen. It is a modern vision of full employment that will eliminate pockets of marginalisation and extend real employment opportunity to all.

8. Because of our success in reducing unemployment since 1997, the majority of people who are still not in employment are those traditionally defined as being outside the labour market. They have more complex and difficult barriers to overcome, but this does not mean that they do not want to or cannot work. Indeed, given the right specialised and tailored support, many can and want to. So reform is possible but must go forward on the basis that any new responsibilities must be balanced by the right to appropriate support. Supporting these inactive people into work is crucial to our ability to achieve our aspiration of an 80 per cent employment rate – and doing so means that we must:

- support children and families – including helping lone parents into work by making work possible and making work pay;
- help people on incapacity benefits¹ to get the support they need to fulfil their own ambitions to return to work; and
- break down the barriers that prevent disabled people, older workers and ethnic minorities from fully realising their ambitions in the workplace.

9. Our approach is all about helping people meet their own desires to move back to work, not about time-limiting or cutting benefits. Delivering financial security for those who need it will always be a central function of the welfare state. But as a society we simply can not afford to lose out on the skills and contributions of many who can work but who remain outside the labour market. As we extend rights we must also ask people to fulfil greater responsibilities.

10. Achieving our long-term aspirations will play a significant part in meeting the challenges of our ageing society. If current employment rates remain constant, the economic dependency ratio (defined as the number of non-workers supported by each worker) would increase by almost a quarter by 2050. However, with an employment rate of 80 per cent, this ratio would be roughly the same in 2050 as it is today.

Supporting children and families

11. Our vision is that all children should grow up free from poverty, being offered the best start in life. Social justice demands this, and it is also essential if every child is to achieve their true potential and play a full role in the economy. Work is the best route out of poverty and we are determined to help families meet the considerable challenge of balancing the demands of work and family life. Our approach will help support the choices that parents make.

12. We will make sure that work is possible, make sure it pays and provide financial security for children by:

- providing over 2 million sustainable childcare places for children up to the age of 14 by 2010;
- supporting Extended Schools so that by 2006 there will be out-of-school-hours childcare available for every primary school child in the country; and
- supporting parents in work through Working and Child Tax Credits and in their parenting responsibilities by extending Statutory Maternity Pay.

¹ Incapacity benefits is used here to cover contributory Incapacity Benefit, Income Support with the disability premium and Severe Disablement Allowance.

13. Expanding childcare will boost the overall employment rate, and the female employment rate in particular. Sweden is one of the few industrial countries with a higher female employment rate than our own. It is no coincidence that Sweden has an excellent childcare system.

14. We believe we can help up to an extra 300,000 lone parents into work by providing accessible, tailored employment advice and giving them the opportunity to get the skills they need to move off benefits and into work. International evidence suggests that countries with high lone parent employment rates offer a balanced package of measures, combining good and affordable childcare availability with a work focus and strong financial incentives. We will pilot this approach through *Pathways to Work for Lone Parents*, an integrated package of support to lone parents which includes:

- a guarantee about a clear gain from work;
- a guarantee about childcare support;
- a guarantee of the ongoing help of professional, well-trained and properly supported advisers;
- a responsibility to engage more intensively with our employment advisers.

15. The *Pathways* package pilot allows us to move towards a model of active engagement for all lone parents on benefit, based on clearer guarantees of advice and support. With all this additional help available, there is a reasonable responsibility to take steps to get into work. For those with children aged 11 or over, we will pilot automatic payments of an activity premium, on top of all existing benefits, conditional on taking up agreed activity to help lone parents move into work.

Supporting people with health conditions and disabilities

16. Large numbers of people with health conditions and disabilities who are without work would like to be in a job. But too often they remain inactive because of outdated assumptions and a welfare system that until recently ignored the special barriers to work that they face.

17. Wasting such potential is not only bad for the economy, employers and taxpayers, but also for the 1 million individuals themselves who want to work. Unlocking such potential – in particular, offering tailored support to help people on incapacity benefits return to work – is crucial to achieving our aspiration of an 80 per cent employment rate.

18. Our *Pathways to Work* pilots focus on early intervention and offer much greater support in overcoming barriers to return to work. They are showing very encouraging early results, with on average twice as many people in *Pathways* areas recorded as entering work, compared with those in non-*Pathways* areas. The pilots are now planned to be extended to cover one third of the country, on the road to making this a nationwide offer.

19. With an increase in help and support, there should no longer be an automatic assumption that just because someone is ill or disabled they are incapable of doing any sort of work. This is not just an issue about benefits. Action is needed on a whole range of fronts if we are to encourage and support people to overcome the multiple barriers to working that they face:

- **healthier workplaces** – so that fewer people get sick and injured;
- **enhanced role of the employer** – so that employers play a bigger role in rehabilitation of their employees;
- **more active GPs and NHS** – so that the medical profession is empowered to do more to help their patients fulfil their ambitions to get into employment;
- **extending help and support** – so that people who are on incapacity benefits are for the first time offered comprehensive return-to-work help;
- **reforming the benefit** – on the back of increased help and support, improve the benefit so that it encourages people to focus on what they can do rather than what they can't and;
- **disability rights** – so that people are not discriminated against.

20. As we take forward our reforms, **we will work closely with people with health conditions and disabilities themselves, as well as all our partners, to reform incapacity benefits.** The main role of incapacity benefits is to support those who, through no fault of their own, are restricted in their ability to work because of sickness and injury. This will always be essential. People with health problems will only have the confidence to work if they are financially secure. So it would be wrong to cut the rate of incapacity benefits or to limit the time for which it is available. But none of this means we cannot reform the benefit to help people to realise their own ambitions to work. Our agenda is one of rights and responsibilities: we can expect more of people as long as we safeguard their right to financial security and expand opportunities to engage with the labour market.

21. The success of *Pathways* shows that with the right support many people on incapacity benefits *can* move back into work. So in tandem with the build-up of this support and the strengthening of legal rights against discrimination from employers, we can look to reform benefits, so that they provide the security needed whilst also ensuring that the majority of claimants with more manageable conditions engage with the help and support available, offering the right rewards for engaging with the labour market.

22. Building on *Pathways*, the next step in offering a better deal for claimants of an incapacity benefit will be to reform further the benefit and the support on offer to create a new system which recognises that a person's health condition can affect their ability to work in varying degrees and ensures that people are properly rewarded for taking steps which will bring them closer to the labour market. It would involve:

- an initial 'holding benefit' payable at the same rate as JSA – before people have satisfied the Personal Capability Assessment (PCA) which would normally occur within 12 weeks;
- the PCA process could then become the gateway to the new main benefits, but coupled to that would be a fuller assessment of potential future work capacity – **an employment and**

support assessment – so that we can help clients and advisers focus more fully on how they can best plan a return to work;

- following this process, the majority of people with potentially more manageable conditions would receive a payment that might be called '**Rehabilitation Support Allowance**', with a much stronger focus on supporting people back to work. Claimants would be required to engage both in Work Focused Interviews and in activity that helped them prepare for a return to work (this could include work preparation, training or basic skills support). They would receive more than the current long-term rate but those who completely refuse to engage would return to the holding benefit rate. The rules relating to sanctions will be decided in due course; and
- those with the most severe health conditions or impairments would receive a payment that might be called a '**Disability and Sickness Allowance**'. They should get more money than now because they are most at risk of prolonged poverty and are most likely to face significant obstacles to getting work. They will, as now, be required to engage in some Work Focused Interviews. They will also be encouraged to engage in return-to-work activity wherever possible (and be able to access all programmes and incentives as now) but there will be no requirement on them to do so.

Equality for disabled people

23. As well as tailored support and benefit reform, the Government is committed to achieving a culture change in society that will turn disability rights into reality. Real equality will take time to achieve. The Strategy Unit's report² sets out a 20-year vision, so that, by 2025, disabled people in Britain will have full opportunities to improve their quality of life, and will be respected and fully included as equal members of society. But we have concrete plans – covering the reform of services, civil rights and the active promotion of equality by the public sector – which will take us very significantly closer to this vision over the next five years.

² *Improving the life chances of disabled people*, Strategy Unit, 2005.

- We will work across government to implement the recommendations of the Strategy Unit to improve the life chances of disabled people. In particular, we will pilot and develop personalised and more effective services, enabling disabled people to live independently, delivering improved outcomes and actively promoting equality for disabled people.
- The Disability Discrimination Bill will be the final step in meeting the Government's 2001 manifesto commitment to ensure comprehensive and enforceable civil rights for disabled people, including a new statutory duty on public bodies to promote equality for disabled people.
- change tax laws to enable people to draw their occupational pension whilst working for the same employer; and
- help carers to remain in work and to return to work when their caring responsibilities have ended.

Breaking down barriers for older workers

24. People are living longer, healthier lives and many will want to work longer. We will provide choices to people, rather than compel them to work longer. We will tackle discrimination, in all its forms, and seek to move towards a culture where retirement ages are increasingly consigned to the past. Changes to our Welfare to Work policies, tax laws and public pension schemes will all encourage longer working. And to expand people's choices for working longer, we will:

- enact the European Directive on age discrimination in 2006, encouraging employers to recruit, train and retain older workers through the Age Positive campaign;
- sweep away retirement ages for people under 65, and give those above that age a Right to Request working longer which their employers will have to seriously engage with. In 2011 we will review whether the time is right to sweep away retirement ages altogether;
- provide incentives to extend working lives by enabling people to defer taking their State Pension in return for a lump sum payment or a higher weekly pension. For example, a typical person who delays taking their State Pension for five years could receive a payment of £20,000 to £30,000, or an increase of 50 per cent to their weekly pension for the rest of their life;

Ensuring security and dignity in retirement

25. All these measures will help us move towards achieving our new and unprecedented aspiration of an 80 per cent employment rate. As well as supporting more people into work and facilitating choices for people to work for longer, the Government needs to take measures directly to help people build up the pensions that they want. People will only save if they have confidence that when they have done so the pension will be there when they need it. The Pension Protection Fund and the new proactive Pension Regulator will play a crucial role in this respect. Other reforms to tax and regulation are needed to ensure that the system is as simple as possible for employers who want to get on and run good schemes. And through our informed choice programme we are empowering people to take control of their retirement planning.

26. These programmes will go a long way towards helping us meet the future challenge in pensions that we know that we must face. Further changes may be needed as well, in particular to take account of the issues facing women. Any changes must be developed on the basis of the evidence, in tandem with the evolving thinking of the Pension Commission, and must be grounded on clear principles. We will come forward with the principles which will underpin the reform of pensions.

27. For today's pensioners we will continue to tackle poverty and provide financial security. We will help older people to live more independently through delivering the state financial support to which they are entitled. In particular, we are:

- committed to helping the poorest pensioners through increasing take-up of Pension Credit with increases linked to earnings. Pension Credit provides a reward for those with modest savings

for the first time. By 2008, 2.2 million of the poorest pensioners will be in receipt of the guarantee element, which will be increased in line with earnings. We will develop steps to make payments of Pension Credit more automatic;

- continuing to support pensioners through specific benefits such as the Winter Fuel Payment and free television licences for the over 75s;
- developing Joint Teams with local authorities to provide the best possible service to our customers. We are enabling partners to verify supporting information for a claim. We are awarding Partnership Funds to voluntary organisations to boost take-up; and
- working across government to develop a wider strategy to support independence and well-being in an ageing society.

Delivering a better service to the public

28. As a department we have over 20 million customers. We make 13 million payments every week and help nearly 5,000 people into work every day. Our customers are often the most vulnerable in society, who need help, support and advice from our committed staff. To ensure that we serve our customers' changing individual needs and the taxpayer in the best way possible, we will continue to modernise the way we deliver our services and respond to changing individual needs.

29. Our approach is to:

- working with other organisations, understand our customers and tailor our support to their needs, taking account of the fact that some of our customers require more intensive support than others;
- pull together enhanced longitudinal data to enable us better to identify people who might be missing out on their entitlement, and to cut through unnecessary form-filling;

- support our committed and skilled staff, who are our most important asset;
- transform our operations to be as effective and efficient as possible. We will drive up efficiency through organisations streamlining, better processes linked to improved IT support, and reducing performance variations. We will strengthen our efforts to reduce fraud and error; and
- maintain existing performance levels while losing net 30,000 posts in the period to 2008.

Conclusion

30. We are at a crucial point in the history of the welfare state. Through our reforms we have already lifted 2.1 million children and 1.8 million pensioners out of absolute poverty; and with more people employed than ever before we are on the verge of achieving our initial aspiration of three-quarters of the working-age population in work.

31. We must build on these foundations but we must go further in moving to an opportunity society. Achieving our new aspiration of an equivalent to 80 per cent employment rate could mean reducing the number of claimants of incapacity benefits by as many as 1 million and lone parents on benefit by 300,000 by getting them the support they need to return to work. Traditional barriers, whether physical or discriminatory, must be broken down so that all individuals – regardless of age, physical capacity or background – are empowered to fulfil their potential.

32. This new vision of an opportunity society will support all individuals to have longer, active lives and empower them to provide for themselves, their children and their future retirement.

33. Opportunity and security throughout life is our ambition for all – and this Strategy sets out the next stages in how we aim to realise this vision.