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INCREASING EMPLOYMENT OPPORTUNITY FOR ALL

The Government's long-term employment goal is to ensure a higher proportion of people in work than ever before, by the end of the decade.

Worklessness is a constraint on Britain's economic growth potential and one of the most important causes of poverty and deprivation. To advance its long-term goal the Government is tackling structural weaknesses in the labour market, extending New Deal support to disadvantaged jobseekers and improving work incentives. Budget 2002 takes forward this comprehensive programme of reform by:

- introducing a new **Working Tax Credit** from April 2003 to help tackle poor work incentives and persistent poverty among working people. On its introduction, the Working Tax Credit will guarantee minimum incomes of:
 - £183 a week for a single earner couple without children, aged 25 and over and working full time on the minimum wage; and
 - £237 a week for a family with one child and one earner working full time on the minimum wage.
- increasing the **basic credit in the Working Families' Tax Credit, and the couple and lone parent credit in the Disabled Person's Tax Credit**, by £2.50 a week from June 2002, to further improve work incentives;
- **extending the New Deal 25+** in pilot areas on a mandatory basis to jobseekers who have been unemployed for a total of 18 months over the previous three years;
- introducing **mandatory Gateway to work courses** for all jobseekers on the New Deal 25+ in London, Manchester, Dundee and Swansea;
- introducing a new **mentor service** to provide advice and support for lone parents seeking to enter work, and **extending mandatory personal adviser meetings** to all lone parents on Income Support with children under five;
- **extending eligibility for the childcare tax credit** to those who use approved childcare in their own home, and introducing **dedicated childcare coordinators** in every Jobcentre plus district; and
- launching a dedicated **£5 million per annum fund to enable Action Teams to support transport solutions** in areas where travel is a barrier to work.

INTRODUCTION

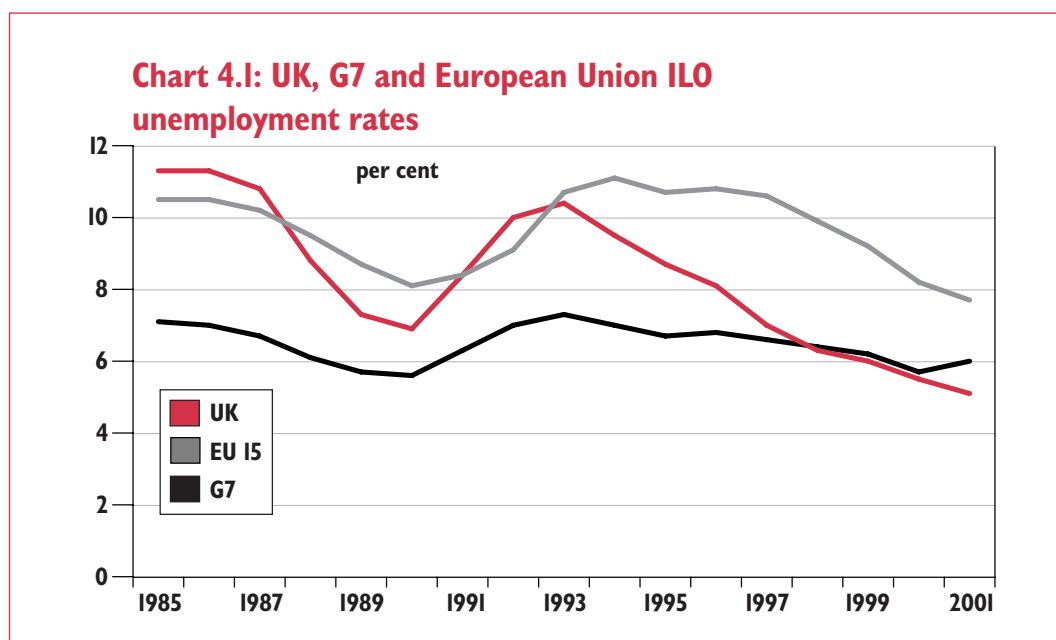
4.1 The Government is determined to extend employment opportunity more widely than ever before. The strength of the economy depends on the number of people in work and how productive they are. For the majority of individuals and their families, employment is also the single most effective means of avoiding poverty, both now and in the future. The Government has therefore set itself an ambitious long-term goal to sustain a higher proportion of people in work than ever before.

4.2 Macroeconomic stability is a prerequisite for achieving the Government's goal. But stability alone does not ensure employment opportunity for all. For this, it must be supported by microeconomic reforms to improve the functioning of the labour market – tackling structural unemployment, improving work incentives and addressing the specific problems faced by particular groups or local areas. The Government's strategy for delivering higher employment therefore comprises:

- Welfare to Work policies that prevent unemployed people from becoming detached from the labour market and help the long-term unemployed and inactive achieve a successful return to work;
- targeted measures to assist those areas and groups that face the most serious barriers to work, helping to re-attach the economically inactive to the labour market and ensuring that employment opportunity is spread fairly throughout the country; and
- reforms to strengthen work incentives and ensure that individuals are rewarded for moving into, and progressing within, employment.

Delivering employment opportunity for all

4.3 This strategy has helped to deliver a stronger and more flexible labour market that has been better able to respond to pressures in the international economy. UK labour market performance in recent years compares favourably with previous periods, and is strong by international standards. Despite recent weakness in the global economy, unemployment is low and falling. The claimant count measure has stayed below one million for the first time since the mid-1970s, while International Labour Organisation (ILO) unemployment is the lowest among the major industrialised nations for the first time since the 1950s. There are also more people in work than ever before, with employment levels 1½ million higher today than in spring 1997.



4.4 The Government's New Deal programmes have also delivered structural improvements in the labour market, helping to reduce long-term and youth long-term unemployment and to address the barriers to work faced by many disadvantaged groups, including lone parents and the over 50s. For example:

- long-term and youth long-term unemployment have both fallen by more than three quarters since 1997;
- the employment rate of lone parents has risen above 50 per cent for the first time in more than 20 years; and
- since spring 1997, employment has risen and unemployment fallen in every UK region.

4.5 Yet despite this significant progress, employment opportunities remain unequal. The employment rates of lone parents, the over 50s, ethnic minorities and people with disabilities all remain below the national average, while certain deprived areas continue to endure unacceptably high levels of worklessness. In this Budget, and in the forthcoming Spending Review, the Government is therefore taking further steps to advance its long-term employment goal, assisting all groups and regions in the labour market.

Box 4.1: Promoting employment opportunity across Europe

As well as extending employment opportunity at home, the UK is promoting labour market reform in the European Union (EU). The Lisbon (March 2000) and Stockholm (March 2001) European Councils both put jobs at the heart of the EU's agenda, setting ambitious employment targets which reinforced the EU's long-term goal of "full employment - opportunity for all". Since Lisbon, substantial progress has been made:

- 5 million new jobs have been created across the EU;
- the EU employment rate has increased to 63.9 per cent in 2001, compared with 59.8 per cent in 1995; and
- the proportion of people living in workless households has fallen from 4.5 per cent to 4.1 per cent.

Notwithstanding these improvements, the EU still has a long way to go to achieve its goals. The Barcelona European Council, in March this year, reaffirmed the EU's commitment to reinforcing labour market reform. The challenge is a considerable one, but underpins EU aims for social justice.

The Barcelona Council emphasised the importance of the Luxembourg Process, which will be reviewed this year. The aim of the review must be to link the European Employment Strategy more closely with the Lisbon agenda, encouraging Member States to develop tailored solutions to national problems, while providing support through a non-legislative process of peer review, benchmarking and best practice.

The EU needs labour markets which foster job creation, while maintaining decent standards in work. An EU endeavouring to raise its productivity must also concentrate on the flexibility of its labour force. This flexibility encompasses geographical and occupational mobility and skills, as well as the ability of wages and working hours to adjust to different economic circumstances; and it applies to employers as much as employees. The Government believes that further work to improve the flexibility of European labour markets is the best route to ensuring job creation across the EU and provides the best possible safeguard against social exclusion.

TACKLING UNEMPLOYMENT

4.6 For most people who become unemployed, worklessness is a short-term experience. Around 75 per cent of Jobseeker's Allowance (JSA) claims end within six months, and over 90 per cent end within one year. Those who do not return to work rapidly are, however, at much greater risk of prolonged disadvantage. The Government's Welfare to Work strategy is therefore designed to tackle long-term unemployment, equipping people with the skills and opportunities they need to find and remain in work, and ensuring that they do not become detached from the labour market while out of work.

Tackling long-term unemployment

4.7 All newly unemployed jobseekers attend mandatory fortnightly interviews with Jobcentre advisers, to ensure they keep in touch with the labour market. After six months a variety of more intensive help becomes available. For many, this provision is sufficient to secure a return to work.

New Deal **4.8** For those who experience greater difficulty in returning to work, the New Deal provides additional support to increase long-term employment prospects. The New Deal for young people (NDYP), for 18 to 24 year olds, and the New Deal for those aged 25 and over (ND25+) offer intensive support for young and older long-term unemployed people. Both programmes provide tailored support from personal advisers, and can include help with jobsearch, opportunities to build and improve basic skills, training and subsidised employment.

4.9 These New Deal programmes have already helped to deliver substantial reductions in the numbers of long-term unemployed, more than achieving the Government's targets for the last Parliament. To date, more than 350,000 long-term unemployed 18 to 24 year olds have found jobs through NDYP, while ND25+ has helped over 90,000 older long-term unemployed people back into work.

Building on the New Deal 25+ **4.10** Following success within NDYP, the Government now **plans to extend a more intensive approach to the Gateway period of New Deal 25+**. Operating in London, Manchester, Dundee and Swansea – covering a number of the country's most disadvantaged areas – this provision will help to address the needs of those who have been out of work for some time, as well as those who have been made redundant and are facing difficulties in re-entering the labour market.

4.11 The Government is also addressing the needs of jobseekers who have experienced repeat spells of unemployment, and are therefore at particular risk of becoming long-term unemployed. To test the effectiveness of offering New Deal help earlier to this group, the Government is **introducing mandatory pilot schemes to extend eligibility for ND25+ to all jobseekers who have been unemployed for a total of 18 months over the previous three years**, rather than 18 of the previous 21 months. Pilots will identify eligible individuals at their six month Restart interview.

Employment Zones **4.12** Employment Zones (EZs) are testing an alternative approach to helping long-term unemployed people aged 25 and over find work, and early evidence is encouraging. Currently operating in 15 disadvantaged areas of England, Scotland and Wales, EZs allow jobseekers and their personal advisers to make more flexible use of the funds available to overcome individual barriers to work.

Over 50s **4.13** While their overall employment position has improved in recent years, at 68 per cent the employment rate of people aged between 50 and state pension age remains below the national average for all people of working age. Introduced throughout the country in 2000, the New Deal for the over 50s (ND50+) offers a package of personal advice, help with job search and in-work training and support. Additional financial support for the first year in

work (currently delivered through the Employment Credit) will from 2003 be delivered as part of the Working Tax Credit. By the end of January 2002, over 61,000 people had found new jobs through the ND50+ programme, and evidence suggests that 42 per cent of claimants would not have taken the job they are in without the Employment Credit.

Rapid Response Service **4.14** Although all areas will naturally experience and absorb some flows in and out of work, some local economies and local labour markets can suffer long-term damage when redundancies occur. Areas with existing high unemployment, or that are heavily dependent on one industry, are particularly at risk. The Rapid Response Service (RRS) brings together the Job Transition Service and the Rapid Response Fund to enhance support in these areas. The RRS aims to prevent long-term damage by offering flexible help which reflects the needs of individuals, employers and the local economy.

HELPING THE INACTIVE

4.15 High levels of economic inactivity are a waste of human resources and a constraint on Britain's economic strength. Tackling the causes of inactivity is central to the Government's strategy for delivering employment opportunity for all.

4.16 At the time of the Pre-Budget Report, the Government published a detailed analysis of the current state of inactivity in the UK¹. There are currently more than 7³/₄ million people of working age who are economically inactive – neither working, nor looking for work – around half of whom are on benefits. These people are less likely to move into work than the unemployed, and are more likely to suffer long-term poverty. A disproportionate number of the inactive are found in particular groups in the population, including lone parents and the long-term sick and disabled. To help integrate the inactive into the labour market, the Government is working to overcome the barriers to participation faced by these groups and is implementing a step change in the level of work-focused support provided to all inactive benefit claimants.

Jobcentre Plus

4.17 In April 2002, the Government launched Jobcentre Plus, a new organisation bringing together the Employment Service and those parts of the Benefits Agency dealing with working age people. Jobcentre Plus delivers for the first time an active, work-focused service to all benefit claimants of working age, both unemployed and inactive. Anyone making a claim for benefit at a Jobcentre Plus office will receive an interview with a personal adviser to discuss the opportunities available for taking up work, and have access to job vacancies, information, advice, training and support. This balancing of rights and responsibilities is at the heart of the Government's strategy of work for those who can, and security for those who cannot.

4.18 Jobcentre Plus is already operational in 56 offices, and the Government has an ambitious plan for national extension. As announced in March 2002, **a further 225 new Jobcentre Plus offices will be rolled out between October 2002 and April 2003**, delivering a work-first approach to 1.4 million benefit claimants, including 400,000 people on inactive benefits.

Help for lone parents

4.19 The Government recognises the difficult choices faced by lone parents seeking to balance work and caring responsibilities and is offering a range of practical assistance to all those who might benefit. The overwhelming majority of lone parents do want to work, and helping them find employment is key to reducing child poverty. The Government has therefore set a target for 70 per cent of lone parents to be in work by 2010, compared with just over 51 per cent in 2000.

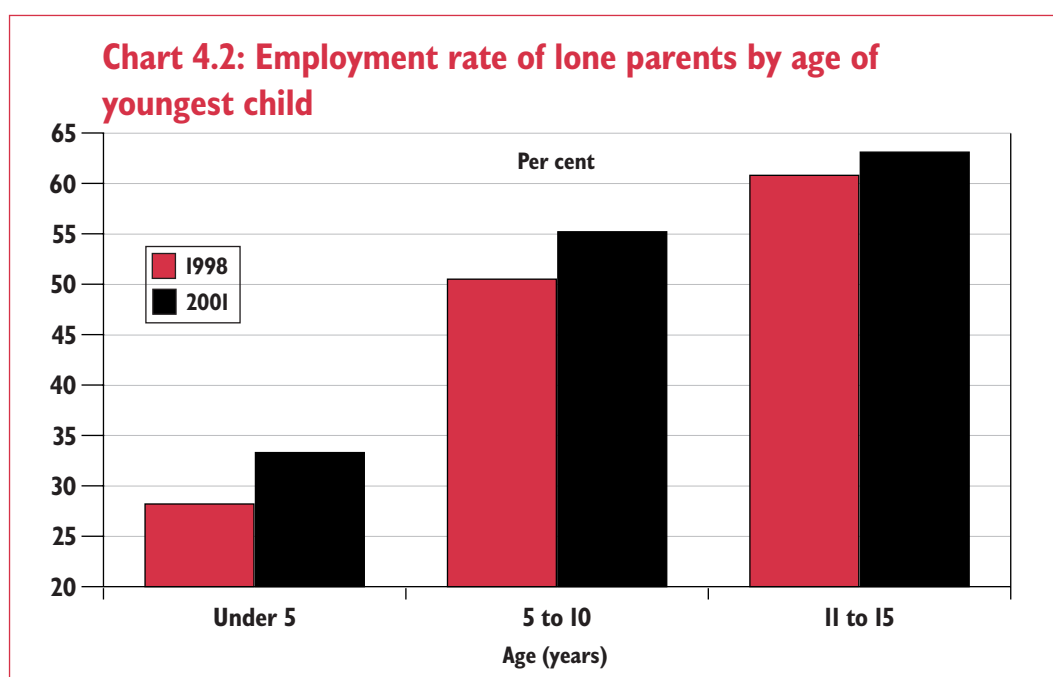
¹ *The Changing Welfare State: employment opportunity for all*, HM Treasury and the Department for Work and Pensions, November 2001.

New Deal for lone parents **4.20** The New Deal for lone parents (NDLP) provides a comprehensive package of support, including a personal adviser, help with training, education and childcare, and advice on benefits, in-work financial support and self-employment. By the end of January 2002, over 315,000 lone parents had participated in the New Deal and over 145,000 had found employment.

4.21 Budget 2001 introduced steps to ensure that lone parents are informed about the help and support available to them. A new advisory and outreach service has begun extending information to lone parents across the country – especially to those living in isolated communities – and lone parents on Income Support with children over the age of five are required to attend regular personal adviser interviews.

4.22 **The requirement to attend personal adviser meetings is now being extended to all lone parents on Income Support with children under the age of five.** This will build on the recent improvement in the employment rates of lone parents with young children, and ensure that all lone parents with new or existing Income Support claims are subject to the personal adviser regime.

4.23 In addition following the success of recent pilots, **the Government will start to introduce a mentoring service for lone parents.** Mentors will be able to provide confidential support and advice to lone parents on a wide range of issues, increasing the help available to lone parents seeking to make the transition into work.



Assistance with childcare **4.24** For many working families, and for lone parents in particular, a lack of suitable and affordable childcare is a major barrier to employment. The Government is committed to helping families balance their work and caring responsibilities, while ensuring that the only childcare it funds is safe, good quality care. The childcare component of the Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit (DPTC) provides generous support to assist with the costs of approved childcare, and already benefits over three times the number of families that received the Family Credit childcare disregard at its peak. This assistance will continue as part of the Working Tax Credit from April 2003.

4.25 The Government is introducing changes to improve support for, and satisfy the needs of, more working parents. **From April 2003, eligibility for the childcare tax credit element of the Working Tax Credit will include those who use approved childcare in their own home,** benefiting families who need home-based care, such as those with disabled children or parents who work outside conventional hours. The Department for Education and Skills (DfES) is to consult shortly on a scheme to regulate childcare in the parent's home.

4.26 The Department of Health will be introducing regulations covering domiciliary workers and nurses' agencies. **Childcare regulated under these schemes will be eligible for the childcare tax credit from April 2003,** allowing more families to receive help with childcare costs. The DfES is also considering schemes to cover childcare provided in schools, and for children over the age of seven. The devolved administrations are responsible for developing their own systems of regulation and, where appropriate, care regulated through these systems will be eligible for the childcare tax credit.

4.27 To ensure that jobseekers with children and their personal advisers have access to information on childcare provision in their area, Budget 2002 also announces that **from April 2003 there will be a dedicated childcare coordinator in every Jobcentre Plus district.** Lone parents may also receive financial assistance through the Adviser Discretion Fund, where up-front childcare costs represent a barrier to moving into work.

National Childcare Strategy **4.28** The Government's National Childcare Strategy aims to help childcare providers meet the growing demand for affordable, accessible and good quality care. Around 538,000 children have already benefited from extra childcare places created between April 1997 and September 2001. By March 2004, around one million children will have benefited from additional places in England alone. To improve childcare provision in disadvantaged areas, the 2000 Spending Review also provided resources for the Neighbourhood Childcare Initiative, which is funding 45,000 new day care places in Neighbourhood Nursery Centres. The first Neighbourhood Nurseries are opening in the coming months.

4.29 To build on the measures in place, the Government is undertaking a cross-departmental review of childcare to inform the 2002 Spending Review. The review aims to deliver a ten year vision and strategy for childcare, taking into account its contribution to employment, education and quality of life.

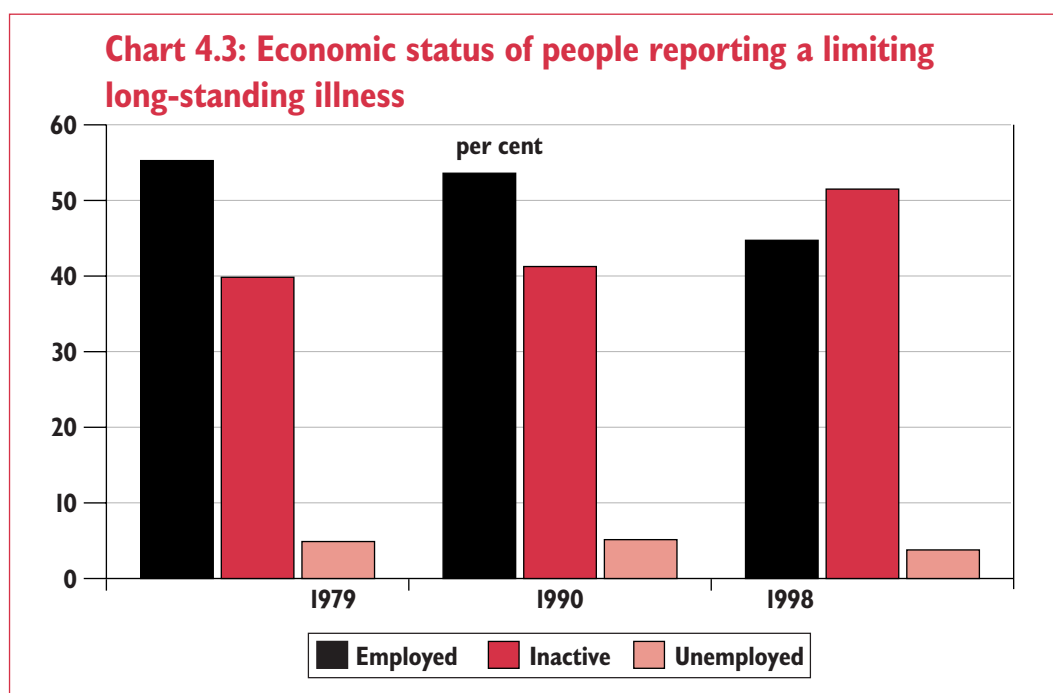
Help for partners

4.30 Workless households today account for a large and growing share of unemployment. In couples where one partner is unemployed, the probability of the other partner being in work is greatly reduced. This is also the case for working age partners of the economically inactive: where the head of a household is inactive, the likelihood of the other partner being in work is less than 40 per cent. These households, the majority of which include children, are mostly in poverty.

New Deal for partners **4.31** The Government is targeting additional support on these households through the New Deal for partners – a personal adviser service for dependent partners of benefit claimants. Since April 2001, childless partners of the unemployed, where at least one partner was born after 1976, have become joint Jobseeker's Allowance claimants. As announced in Budget 2001, **from October 2002, joint claims will be extended to all childless partners of the unemployed where at least one partner was born after 1957.** To ensure that all partners of benefit claimants are offered the help and support they need to return to work, the Government is also currently legislating to **introduce annual work-focused interviews for partners of benefit claimants with children, in line with those being provided for lone parents.**

Help for people with disabilities

4.32 People with disabilities or long-standing health problems who drop out of employment risk becoming detached from the labour market and suffering persistent worklessness. The same is true for those who develop disabilities while in work. Over the last 20 years, the inactivity and employment rates of people with disabilities have deteriorated compared with those of the working age population as a whole. Although there has been no corresponding deterioration in health, the number of people claiming incapacity-related benefits has more than doubled and now stands at 2.7 million. Chart 4.3 shows the rise in inactivity and fall in employment among people reporting a limiting long-standing illness, compared with previous peaks in the economic cycle.



4.33 The Government is determined to help those who can work to find employment. As Jobcentre Plus rolls out, more disabled people will be offered an active, work-first service that focuses on what they can, rather than cannot, do. This approach is supported by new permitted work rules, which enable people on Incapacity Benefit (IB) to try small amounts of work, and move closer to the labour market, without losing their benefit. Since 1 April 2002, IB recipients have been allowed to undertake up to 12 months of permitted work, for up to 16 hours a week, and earn up to £66 each week.

New Deal for disabled people

4.34 The New Deal for disabled people (NDDP) provides a gateway to engage those moving onto Incapacity Benefit and a network of innovative job brokers to help disabled people move into employment. Following the success of regional trials, the NDDP was extended to all areas of the UK in 2001. More than 30,000 people have participated in the programme, including pilots, and over 10,000 of these have been helped into jobs.

Support in work

4.35 To help disabled people already in employment, **the Government will also be testing the effectiveness of retention and rehabilitation schemes from late 2002.** These pilot schemes will assess the impact of early interventions in support of workers at risk of losing their job through sickness or disability. From 2003, disabled people in work will also receive specific financial support through the Working Tax Credit rather than the Disabled Person's Tax Credit. The rates for the Working Tax Credit (set out later in this chapter) mean that the guaranteed minimum income for a single disabled person working 35 hours a week on the minimum wage will rise by over £21 per week to £194.

Help for people with low skills

4.36 Significant numbers of jobseekers and lone parents have levels of basic skills which disadvantage them in the labour market. The Government has a number of initiatives to improve the levels of adult basic skills, including screening for lone parents when they enter the New Deal. The Government would like to develop these approaches further, including in the light of evidence from alternative approaches piloted with Jobseeker's Allowance claimants.

TACKLING REGIONAL WORKLESSNESS

4.37 Despite the strong labour market performance of recent years, within every region there remain localised pockets of high worklessness and deprivation. These areas have failed to share in the rising national prosperity that economic stability has brought.

4.38 Local authority districts that suffer from low employment rates do not simply lack jobs. Many are found alongside other districts with large numbers of vacancies or jobs, while many more contain a high proportion of people with multiple barriers to work. For these clients, the national New Deal programmes may not be sufficient to address their needs. The Government's goal of full employment in every region therefore requires policies to address the barriers which prevent local people from taking local jobs, as well as additional support for the most disadvantaged groups.

Action Teams 4.39 To tackle the obstacles to employment in some of the worst affected areas, the Government has established Action Teams in 63 areas of England, Scotland and Wales. Action Teams focus their resources on the long-term unemployed and the economically inactive, working closely with employers to identify suitable vacancies and match them with clients, and using their resources in innovative ways to overcome specific local barriers to work.

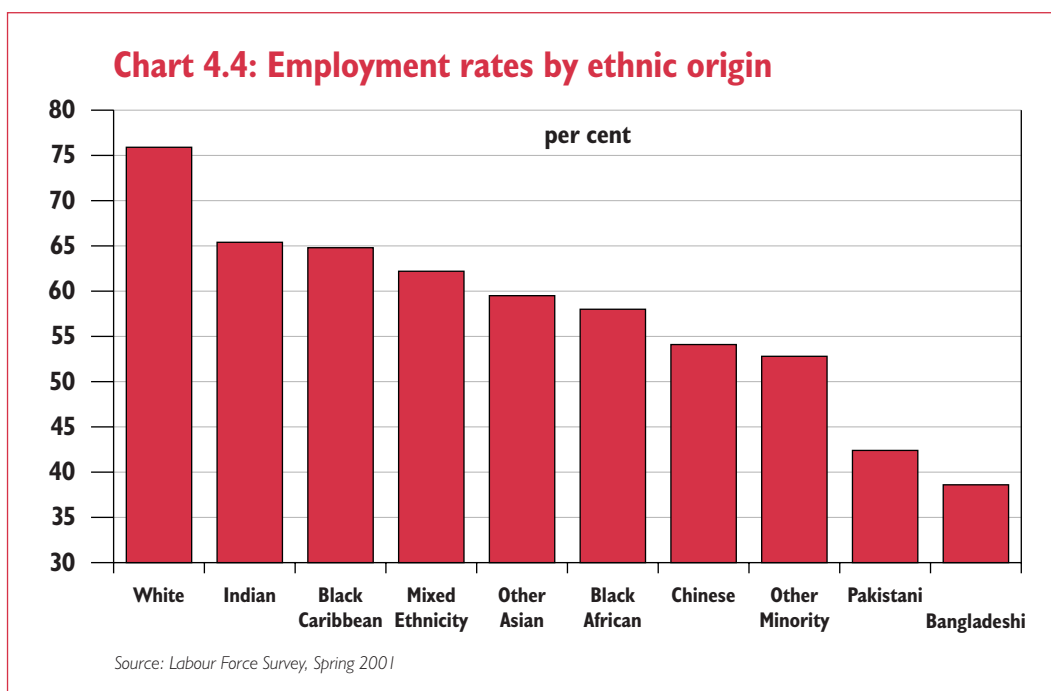
StepUP 4.40 In other areas, the Government is piloting a new scheme which builds on the New Deal experience of disadvantaged jobseekers to enable them to compete more effectively in the labour market. Announced by the Secretary of State for Work and Pensions in November 2001, StepUP will support these jobseekers as they move quickly into transitional employment. Placements will last for a maximum of 12 months and be tailored according to the needs of the local labour market. **Twenty StepUP pilots across the whole of the UK are now planned, with the first six in operation by the end of April 2002.**

Transport 4.41 Even in areas with substantial numbers of vacancies, people can remain out of work for long periods because their expectations regarding travel to work are limited. The Government is committed to enforcing the obligations on jobseekers that form part of the Jobseeker's Agreement, and claimants have a responsibility to make reasonable efforts to travel to work. In return, the Government is helping to widen jobseekers travel-to-work horizons, by:

- **launching a dedicated £5 million per annum fund to enable Action Teams to support transport solutions in areas of acute deprivation where travel is a barrier to work;**
- **expanding personalised travel planning services in Jobcentres**, including by exploring electronic access, to help jobseekers find out how to get to jobs; and
- a review of bus subsidies, described in Chapter 7, to ensure they support the needs of disadvantaged areas and groups.

4.42 In addition to these targeted reforms, the Government has also launched a ten year Plan for Transport, backed by significant and sustained resources, to reverse years of under-investment and deliver a better and more reliable nationwide transport system.

Ethnic minorities 4.43 The labour market position of ethnic minority groups tends to be worse than that of the rest of the population. Unemployment rates among ethnic minorities can be up to three or four times higher, while employment rates are also significantly lower.



4.44 The Government is already taking steps to address the difficulties faced by ethnic minority groups. Many members of these groups live in disadvantaged areas currently being targeted by Action Teams, which have the flexibility to respond to the specific barriers to work their clients face. In addition, tailored outreach programmes are being introduced in four main areas – Greater London, West Yorkshire, Greater Manchester and the West Midlands – to help ethnic minorities access the range of support available to them.

4.45 The Cabinet Office Performance and Innovation Unit (PIU) will report in summer 2002 on the labour market disadvantages faced by black and Asian people. The Government will propose further actions to address long-standing ethnic inequalities in the labour market in the light of recommendations contained in the PIU report.

Funding for Welfare to Work

4.46 As set out in the Pre-Budget Report, the majority of the Welfare to Work programme is now delivered by the Department for Work and Pensions (DWP). Expenditure plans and outturn information will be set out in the DWP annual report. In this Budget, and in future Budgets and Pre-Budget Reports, the Government will report on that element of the Welfare to Work programme funded by the one-off Windfall Tax, until such time as the Windfall Tax resources are exhausted.

Table 4.1: Allocation of the Windfall Tax

| £million | 1997-98 | 1998-99 | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 ² | TOTAL |
|---|-------------|-------------|------------|------------|------------|------------|----------------------|-------------|
| Spending by programme¹ | | | | | | | | |
| New Deal for young people | 50 | 200 | 310 | 300 | 330 | 320 | 60 | 1570 |
| New Deal for 25 plus | 0 | 10 | 90 | 110 | 230 | 280 | 60 | 780 |
| New Deal for over 50s | 0 | 0 | 5 | 20 | 10 | 20 | 5 | 50 |
| New Deal for lone parents | 0 | 20 | 40 | 40 | 60 | 140 | 30 | 320 |
| New Deal for disabled people ³ | 0 | 5 | 20 | 10 | 20 | 60 | 10 | 125 |
| New Deal for partners | 0 | 0 | 5 | 10 | 10 | 30 | 5 | 60 |
| Childcare | 0 | 20 | 10 | 5 | 0 | 0 | 0 | 35 |
| University for Industry ⁴ | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 5 |
| Workforce development ⁵ | 0 | 0 | 0 | 0 | 0 | 30 | 40 | 70 |
| ONE pilots ⁶ | 0 | 0 | 0 | 5 | 5 | 0 | 0 | 10 |
| Action Teams | 0 | 0 | 0 | 10 | 50 | 70 | 20 | 150 |
| Enterprise Development | 0 | 0 | 0 | 10 | 20 | 10 | 0 | 40 |
| Modernising the Employment service | 0 | 0 | 0 | 40 | 0 | 0 | 0 | 40 |
| Total Expenditure | 50 | 260 | 480 | 550 | 710 | 960 | 220 | 3240 |
| Capital Costs⁷ | 90 | 270 | 260 | 750 | 450 | 0 | 0 | 1830 |
| Estimated Windfall Tax Margin | | | | | | | | 130 |
| Windfall Tax receipts | 2600 | 2600 | | | | | | 5200 |

¹ Rounded to the nearest £10 million, except where expenditure is less than £5 million. Constituent elements may not sum to totals because of rounding.

² Windfall Tax expenditure is significantly reduced in 2003-04 as Windfall Tax resources are exhausted. Remaining in year expenditure will be topped up with general Government revenues.

³ Includes £10 million in 1999-00, an element of the November 1998 announcements on Welfare Reform.

⁴ Start up and development costs. Other costs of the Ufl are funded from within Departmental Expenditure Limits.

⁵ Includes workforce development pilots budgeted to cost £40 million, of which £25 million will come from Windfall Tax, with the remaining £15 million provided by the DfES. Profile of expenditure may be subject to change. The Windfall Tax also provides £30 million to encourage more small organisations to reach the Investors in People standard.

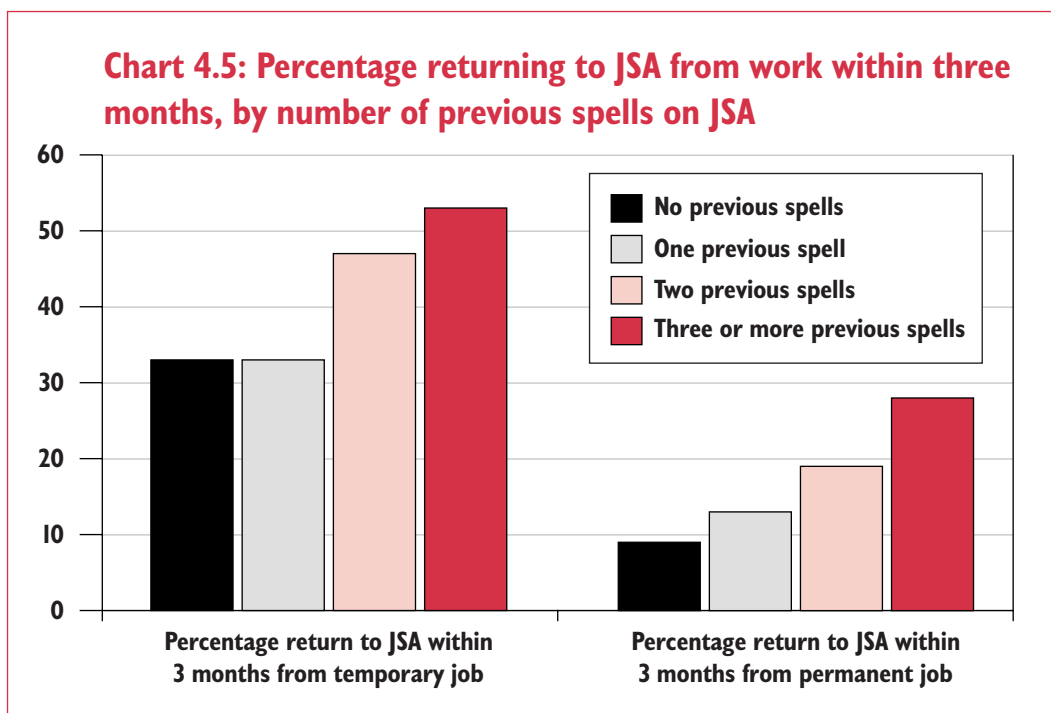
⁶ Funding for repeat interviews. Other funding comes from the Invest to Save budget.

⁷ Includes New Deal for schools – capital spending on renewal of school infrastructure, to help raise standards.

EASING THE TRANSITION TO WORK

4.47 The transition into work can be a difficult period, especially for those who have been out of work for long periods. Entry wages are typically lower than for those already in employment, and there are often additional difficulties in adjusting to work. A smooth transition to work improves the prospects of individuals remaining in employment, and progressing beyond entry-level jobs.

Retention and advancement 4.48 Some people continually move between low-paid work and unemployment, enduring a 'low pay, no pay' cycle. Around 25 per cent of people who leave Jobseeker's Allowance return to benefits within three months, and almost 40 per cent return within six months. The wages that people return to work on are also typically lower than for those already in work.



4.49 Budget 2001 announced a demonstration project to explore how best to improve job stability and advancement among low paid workers and those moving off welfare. The design phase is now underway and further announcements will be made in the autumn about the next stages of the project. The project will explore a range of interventions, such as post-employment support from a personal adviser and other instruments.

Housing Benefit 4.50 Housing costs are of particular concern to many people moving into work. Evidence suggests that worklessness is concentrated among tenants, especially those in social housing, and around 3.8 million low-income tenants still rely on Housing Benefit for help with their rent. Easing the return to work for tenants is therefore an important strand of the Government's strategy for delivering higher employment.

4.51 A number of recent reports, including the Housing Green Paper², have highlighted problems associated with Housing Benefit. Delays in processing claims can make it difficult for tenants to be sure that they will be better off in work and can lead to rent arrears and debt, thereby reducing work incentives.

4.52 The Government has taken a number of steps to alleviate these administrative problems, working with local authorities and other organisations to improve administration, restructuring rents in the social sector to inform the choices tenants make about their homes, and moving 800,000 people off Housing Benefit through higher employment and higher in-work support. Housing Benefit will cost almost £1 billion less in real terms in 2002-03 than in 1996-97. The Government is now considering what further action is needed to improve the administration of Housing Benefit as part of the 2002 Spending Review and is continuing to examine the case for longer term reform.

² *Quality and Choice: a decent home for all*, DETR, April 2000

MAKING WORK PAY

4.53 An individual's decision about whether and how much to work depends greatly on their household's gain from that work. The Government's reforms to help improve work incentives are designed to tackle two key problems:

- the unemployment trap, when those without work find that the difference between in- and out-of-work incomes is too small to provide an incentive to take a job; and
- the poverty trap, when those already in work may be discouraged from working longer hours or taking a better paid job because it may leave them little better off.

4.54 The Government is committed to tackling these problems by ensuring that work pays more than welfare and by improving incentives to move up the earnings ladder. The Government also wants to improve the choices faced by families seeking to balance work and family responsibilities.

National Minimum Wage **4.55** The National Minimum Wage, introduced in April 1999, ensures fair minimum standards of pay, and underpins the Government's tax and benefit reforms. In October 2001, the National Minimum Wage was increased to £4.10 an hour for workers aged 22 and over and to £3.50 an hour for workers aged between 18 and 21. **As announced by the Secretary of State for Trade and Industry on 15 April, these rates will be increased to £4.20 and £3.60 respectively in October 2002.**

Making work pay for all **4.56** The Government has introduced a series of reforms to help make work pay at all levels of the labour market, but especially for those on low incomes. At 22 pence, the basic rate of income tax is at its lowest level for 70 years, while the 10 pence starting rate of income tax has halved the marginal tax rate of nearly two million low earners since it was introduced in 1999. Reforms to national insurance contributions (NICs) in the last Parliament mean around one million low earners no longer pay any NICs at all, while retaining entitlement to contributory benefits.

Equal pay **4.57** The Government is also committed to driving forward action on equal pay. The Kingsmill review of Women's Employment and Pay reported to the Government in December 2001. The Government welcomes the report, which examines non-legislative and cost effective measures to deliver improvements in women's employment prospects and participation in the labour market.

4.58 To tackle problems of pay discrimination, and ensure that those affected receive proper redress, the Government is taking a number of steps, including:

- encouraging public and private sector employers to conduct pay reviews, simplifying them by promoting the Equal Opportunities Commission's pay review model and the revision of the Equal Pay Code. It is also supporting best practice through Fair Pay Champions and the Castle Awards;
- speeding up and simplifying the employment tribunal process to provide more effective settlement of pay disputes; and
- demonstrating best practice itself. As part of the Modernising Government programme, departments and agencies will carry out reviews of their pay systems by April 2003 and prepare action plans to reduce pay gaps which reflect gender, race or disability.

Additional targeted support **4.59** To improve work incentives for families with children, the Working Families' Tax Credit (WFTC) was introduced in October 1999. Nearly 1.3 million families are now receiving WFTC – over 450,000 more than received Family Credit at its peak. These families are on average receiving around £40 a week more than they would have under Family Credit. The WFTC also includes a generous childcare component to help working families with childcare costs, benefiting over three times the number of families that received the Family Credit childcare disregard.

4.60 The Disabled Person's Tax Credit (DPTC) was launched alongside the WFTC. The DPTC offers in-work support to people with disabilities who work 16 hours or more a week, and who are receiving, or have recently received, one of a number of qualifying benefits, or who satisfy the special rules which govern the "Fast-Track" route to DPTC. Over 32,000 people are currently receiving DPTC – over 70 per cent more than received Disability Working Allowance at its peak – and the number continues to grow.

The Working Tax Credit **4.61** As part of the next steps in tax and benefit reform, **from April 2003 the Government will be introducing two new tax credits: the Working Tax Credit and the Child Tax Credit.** Following the success of WFTC and DPTC, the Working Tax Credit is designed to help tackle poor work incentives and persistent poverty among working people. It will carry over the adult elements of WFTC and DPTC and extend in-work support to workers without children or disabilities. It will also replace the Employment Credit 50+ by including a return-to-work element for people aged 50 or over who have been receiving certain out-of-work benefits for at least six months.

4.62 The Government has consulted widely on the design of the Working Tax Credit and has considered carefully the responses it received. In the light of these responses it has decided that:

- entitlement to the Working Tax Credit will be based on annual income, in line with the Child Tax Credit and the rest of the tax system;
- eligibility will be extended to people aged 25 and over without children or a disability – those most likely to face poor work incentives or persistent poverty – who work 30 hours or more a week;
- those with children or a disability will be eligible for Working Tax Credit provided they work 16 hours a week or more. A 30 hour premium will be available to such couples with children who jointly work 30 hours or more a week, and to disabled workers who work 30 hours or more;
- the childcare element of the Working Tax Credit will be paid directly to the person with main responsibility for care of the children – usually the mother – alongside the new Child Tax Credit. This childcare element recognises the extra costs faced by working parents with childcare needs, mirroring arrangements in the WFTC and the DPTC; and
- the arrangements for payment of tax credit via the employer, including the application procedure for advance funding, will be simplified to help both recipients and employers.

4.63 **Budget 2002 announces the rates and thresholds that will apply to the Working Tax Credit from April 2003.** Details of the rates and thresholds are provided in Chapter A of the Financial Statement and Budget Report and are summarised in Table 4.2. The Working Tax Credit is described in more detail in the accompanying Budget paper, *The Child and Working Tax Credits*³.

³ *The Child and Working Tax Credits, The Modernisation of Britain's Tax and Benefit System, No. 10, HM Treasury and Inland Revenue, April 2002*

4.64 To improve work incentives further ahead of the new introduction of the Working Tax Credits, the **basic credit in the Working Families' Tax Credit, and the credit for couples and lone parents in the Disabled Person's Tax Credit, will rise by £2.50 a week from June 2002**, on top of the increases in line with indexation in April 2002.

Table 4.2: The principal elements of the Working Tax Credit

| | 2003-04 weekly amounts (£) |
|--|----------------------------|
| Basic element | 29.20 |
| Couple and lone parent element | 28.80 |
| 30 hours element | 11.90 |
| Maximum credit for lone parents and couples | 69.90 |
| Childcare element | |
| –maximum eligible cost | 200 |
| –maximum eligible cost for one child | 135 |
| –percentage of costs covered | 70 |
| Income below which maximum Working Tax Credit is payable | 97.00 |
| Withdrawal rate (per cent) | 37 |

The effect of the Government's reforms to make work pay

4.65 Building on the Government's personal tax and benefit reforms since 1997, and taking into account the changes to national insurance contributions and the income tax personal allowance announced in this Budget, the Working and Child Tax Credits advance the Government's aim of making work pay.

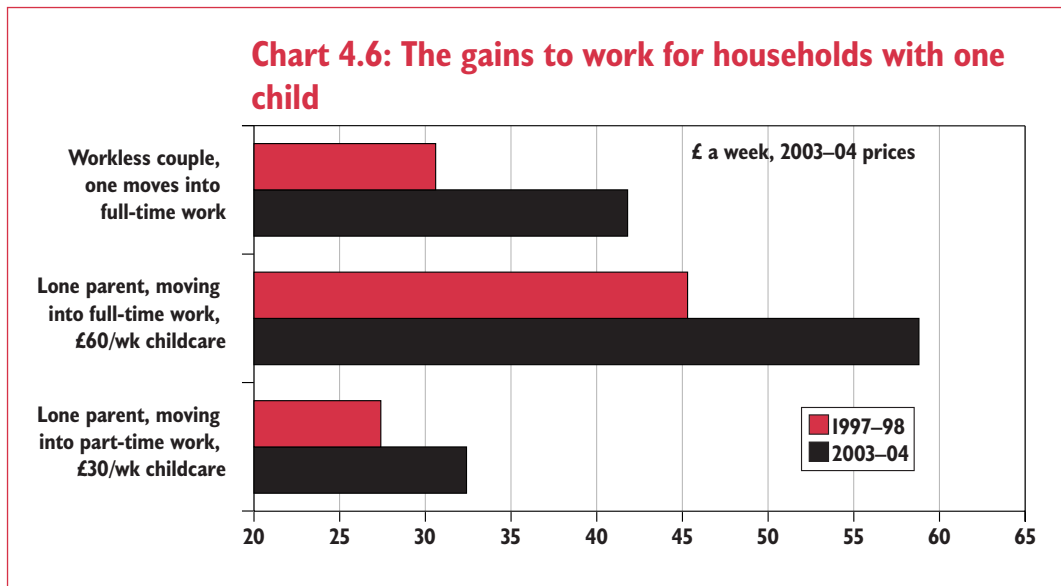
4.66 The Government guarantees a minimum level of income for parents moving into employment. These guaranteed minimum levels of income are set out in Table 4.3, for a family with one child and one person working at the National Minimum Wage.

Table 4.3: Minimum incomes for working families

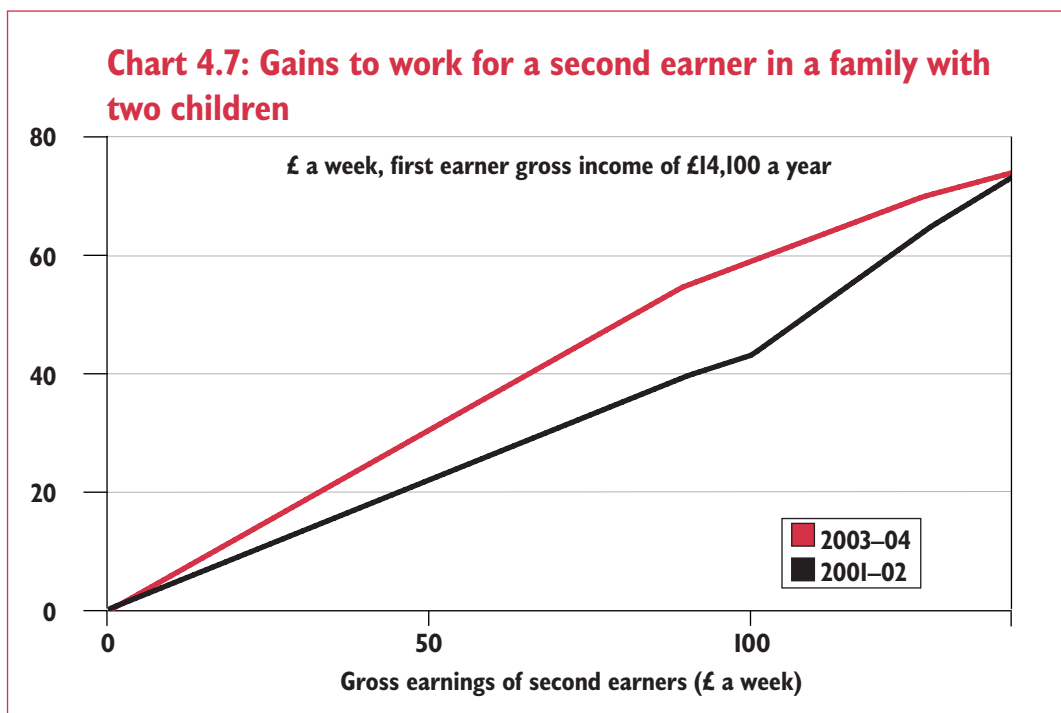
| £ a week | October 01 | April 02 | April 03 |
|--|------------|----------|----------|
| Family working 35 hours with one child | 225 | 227 | 237 |
| Family working 16 hours with one child | 166 | 167 | 179 |

Note: Assumes prevailing rate of National Minimum Wage and that family is eligible for Working Families' Tax Credit and Working Tax Credit/Child Tax Credit

4.67 The Government's reforms are helping to ensure that work pays more than welfare, addressing the problem of the unemployment trap. The gain to work has increased, while security for those out of work has been maintained and enhanced. Chart 4.6 shows how the gains to work have improved for different households as a result of measures since 1997.



4.68 The new tax credits will also improve the financial rewards to work for the non-working partner in a single earner couple. This is, in part, a result of withdrawing the new tax credits on the basis of gross rather than net income. Chart 4.7 shows how the gains to work for a second earner (where the first earner is on half average earnings of £14,100) will improve under the new tax credits. At typical entry wages, the gain to work for a second earner taking a part-time job will have increased by around £14 a week.



4.69 These measures have also helped to lessen the poverty trap. Many low income families, who often face very high marginal deduction rates, now keep more of each additional pound that they earn, losing less through reduced benefits and higher taxes. In 1997, almost 750,000 families faced marginal deduction rates of over 70 per cent. As a result of measures introduced by the Government, this number has fallen by nearly half a million.

Table 4.4: The effects of the Government's reforms on high marginal deduction rates

| Marginal deduction rate ¹ | Before Budget 1998 ² | 2002-03 tax and benefits system ³ | After introduction of new tax credits ⁴ |
|--------------------------------------|---------------------------------|--|--|
| Over 100 per cent | 5,000 | 0 | 0 |
| Over 90 per cent | 130,000 | 45,000 | 45,000 |
| Over 80 per cent | 300,000 | 210,000 | 200,000 |
| Over 70 per cent | 740,000 | 255,000 | 260,000 |
| Over 60 per cent | 760,000 | 940,000 | 1,450,000 |

¹ Cumulative figures for working households in receipt of income-related benefits or WFTC (new tax credits from 2003).

² Based on 1997-98 caseload and take-up estimates.

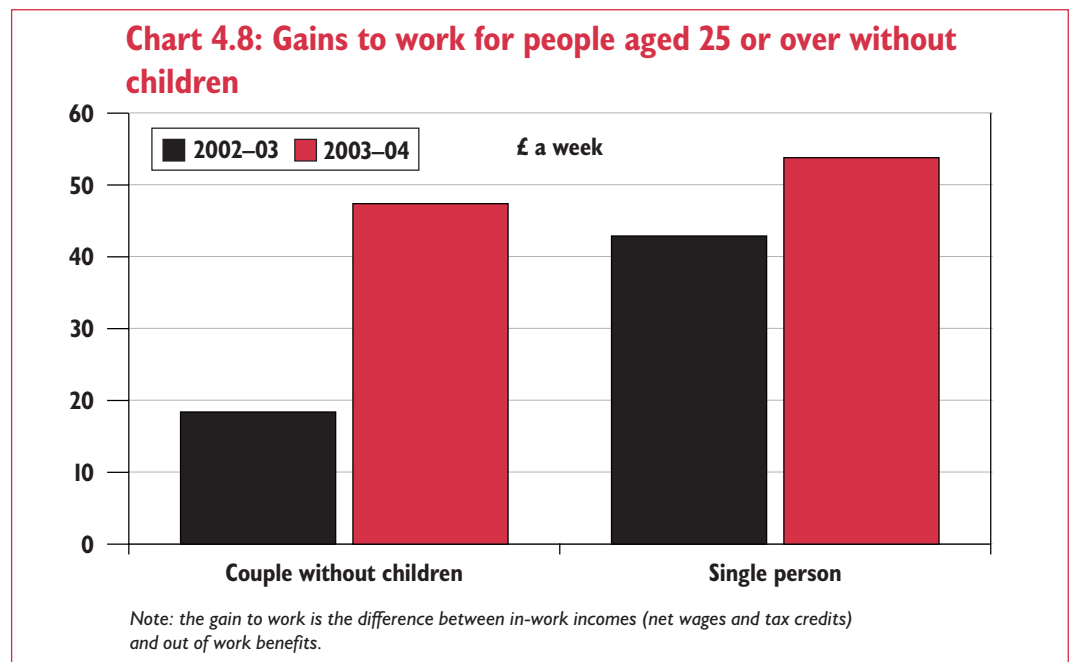
³ Based on 1999-2000 caseload and take-up estimates.

⁴ After Budget 2002 including new tax credits, based on 1999-2000 caseload and take-up assumptions.

4.70 This analysis does not take into account the way in which the new tax credits will respond to rises in income, described in detail in *The Child and Working Tax Credit*. The new tax credits only respond to rises in income in the current year of more than £2,500, disregarding the first £2,500 of any rise. This means that recipients will not see their tax credits reduced as soon as their income rises, so reducing the effective marginal deduction in any one year.

Support for workers without children

4.71 Making the Working Tax Credit available to all those aged 25 and over and without children will also help to improve work incentives for this group. Chart 4.8 shows how the gain to work at typical entry wages will be improved by the Working Tax Credit.



4.72 The Working Tax Credit complements the National Minimum Wage by increasing the guaranteed minimum income in work of people without children moving into work. These guaranteed minimum levels of income are set out in Table 4.5. For a couple without children, the minimum income in work under the Working Tax Credit is equivalent to a National Minimum Wage of £5.25 an hour.

Table 4.5: Minimum income for someone aged over 25 in work

| £ a week | April 02 | April 03 |
|---------------------|----------|----------|
| Couple (one earner) | 130 | 183 |
| Single person | 130 | 154 |

Note: Assumes the individual works 35 hours at the National Minimum Wage

Support for workers with disabilities

4.73 The Working Tax Credit will bring people with disabilities into the same system of support as other workers. Payments will be made for each individual who qualifies, improving work incentives for the second disabled earner in a couple. The basic payment for a single worker will be £68.35 per week from April 2003, around £5 more than would be payable under the DPTC.

4.74 From April 2002, the DPTC, with the minimum wage, guarantees a minimum weekly income of £172 for a single person in full time work. With the Working Tax Credit this will rise by over £20 to £194 a week. Table 4.6 shows the Minimum Income Guarantees for a single person with an illness or a disability, but without children, working at the National Minimum Wage.

Table 4.6: Minimum income guarantee for a single person working with a disability or illness

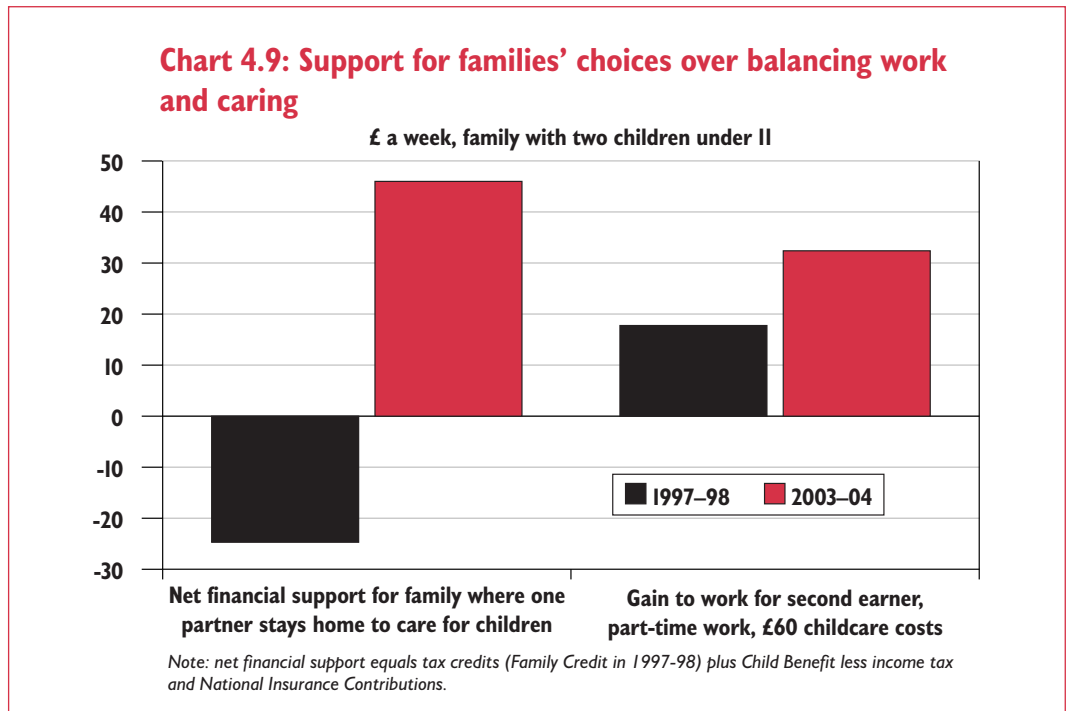
| £ a week | October 01 | April 02 | April 03 |
|---|------------|----------|----------|
| Working 35 hours | 170 | 172 | 194 |
| Working 16 hours | 126 | 127 | 135 |
| Working 35 hours with a severe disability | 236 | 239 | 267 |
| Working 16 hours with a severe disability | 192 | 194 | 209 |

Note: Assumes prevailing rate of National Minimum Wage, that worker is eligible for Disabled Person's Tax Credit/Working Tax Credit, and that worker with severe disability is receiving higher rate care component of Disability Living Allowance.

Improving the choices for working families

4.75 The Government's reforms have already eased the burden on parents seeking to balance work and childcare, making it easier for one parent in a couple to remain at home to care for their children. Reforms to the structure of support, including the introduction of the new tax credits, improve the financial returns to work for parents seeking to re-enter employment.

4.76 Chart 4.9 shows the effects of the Government's reforms on a family with two children under 11 in which the main earner has an income of half average earnings (£14,100), and one parent remains at home to care for the children. Under the 1997–98 tax and benefit system, the family would have paid £25 more in income tax and NICs than they received in benefit. In 2003–04, a family making the same choice would receive around £40 a week in net financial support. The gains to work, if that parent chooses to work part-time, will have increased by 80 per cent.



4.77 The new tax credits will provide help with childcare costs to families further up the income distribution. For example, a family with two children, maximum childcare costs and an income of £35,000 a year can, as a result of the Working Tax Credit and Child Tax Credit, receive up to £50 a week in financial support. This reflects the Government's approach to helping families with children: providing support to all families, while offering the greatest help to those who need it most. The Government's wider strategy for supporting families, and tackling child poverty, is described in the next chapter.

