

United Kingdom

# Trends, Recent Developments, Active Inclusion and Minimum Resources

First Semester Report 2006

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On behalf of  
**European Commission**  
DG Employment, Social Affairs and Equal Opportunities

## Table of contents

<b>Summary.....</b>	<b>3</b>
<b>Background .....</b>	<b>4</b>
<b>CHAPTER 1: KEY TRENDS, RECENT POLICY AND LEGISLATIVE DEVELOPMENTS .....</b>	<b>5</b>
1.1 Context.....	5
1.2 Major Trends.....	6
1.3 Policy and legislative developments.....	17
1.4 Preparation of the NAP/inclusion and mobilisation and involvement of actors .....	25
1.5 Looking forward.....	26
<b>CHAPTER 2: ACTIVE INCLUSION AND MINIMUM RESOURCES .....</b>	<b>27</b>
2.1 Active inclusion .....	27
2.2 Minimum resources.....	33
<b>Conclusion .....</b>	<b>37</b>

## Summary

We reviewed progress on the UK NAP/inclusion (2003-05) in our third, fourth and fifth reports. The UK government published an Implementation Report (IR) in August 2005 and our sixth report was a critical review of that Report. This report finds:

- From a poverty base which was historically and comparatively dire in the mid 1990s, most key indicators of poverty and social exclusion have continued to move in the right direction recently.
- Much of this still has to do with the performance of the UK economy, and particularly the state of the labour market. However more recently there is evidence that the UK economy has been going through a downturn with slight increases in unemployment and a halt to employment growth. The Government's employment targets may become more difficult to meet.
- The Government failed to reach its target to reduce child poverty by a quarter by 2004/5. However child poverty has fallen by 23 per cent before housing costs and 17 per cent after housing costs since the baseline date, 1998/99. More substantial progress has been made in reducing pensioner poverty.
- It is still not clear how the government intends to achieve the target of halving child poverty by 2010. Even if the labour market remains buoyant, further redistributive policies will be required for those in and out of employment.
- Overall public expenditure is rising and is leading to substantial increases in spending on transport, education, health and childcare; increasing attention is being paid to the extent to which these spending programmes support the anti-poverty agenda and the strategy to tackle area disadvantage.
- Substantial extra resources are being directed to families with children and pensioners. But benefits for adults have not increased in real terms for over three decades, and this is causing increasing concern.
- Major reforms or reviews have been announced or published since our last report. These include the final report of the Pensions Commission, the announcement of a thorough-going review of child support and the Welfare Reform Green Paper (each of these is discussed below). A Commission on the gender pay gap published its report.
- A long-term strategy on childcare provision aims to achieve flexible, high quality, affordable childcare, and the government intends to develop the childcare workforce. But there are still concerns about viability, about long-term funding, and about over-reliance on demand side subsidy arrangements.
- Looking forward, additional targets on tackling poverty more generally could be developed, and a broader vision of social inclusion could be defined - one that recognises and begins to tackle the very wide inequalities in British society. Current commentary is beginning to emphasise this agenda more.

## Background

At the Lisbon summit in 2000, the European Council agreed to adopt an 'open method of coordination' in order to make a decisive impact on the eradication of poverty and social exclusion by 2010. Member states adopted common objectives at the Nice European Council and all member states drew up National Action Plans against poverty and social exclusion (NAPs/inclusion). (Member states have also produced National Action Plans on employment<sup>1</sup> and National Strategy Reports on pension provision.<sup>2</sup>) The first UK National Action Plan on Social Inclusion (2001-2003) was published in July 2001, and the second (2003-05) in 2003. An Implementation Report was published in summer 2005.

Early in 2003, the European Commission established a group of non-government experts responsible for providing an independent critical review of member states' NAPs/inclusion. As UK experts, we have so far produced six reports:<sup>3</sup>

1. A First Report in April 2003,<sup>4</sup> reviewing developments since the 2001-2003 NAP/inclusion<sup>5</sup>.
2. A Second Report in August 2003,<sup>6</sup> which updated the first report, and also reviewed the involvement of actors in the NAP/inclusion for 2003;
3. A Third Report<sup>7</sup> reviewed the 2003-2005 NAP/inclusion for the UK, which was published on 31 July 2003<sup>8</sup> together with eight annexes.<sup>9</sup> This review was designed to help inform the *Second Joint Report on Social Inclusion*, which was published in December 2003 by the Commission,<sup>10</sup> especially the UK chapter in Part II.
4. A Fourth Report<sup>11</sup> in April 2004 was a review of the implementation of the UK National Action Plan from July 2003, when it was published, to mid April 2004, including policy changes and the mobilisation of actors.
5. A Fifth Report<sup>12</sup> updated the previous report and contained a review of new policy measures. However, in that report we were asked especially to assess the implementation of the

<sup>1</sup> See Department for Work and Pensions, *United Kingdom Employment Action Plan*, 2002.

<sup>2</sup> See Department for Work and Pensions, *United Kingdom National Strategy Report on the Future of Pension Systems*, 2002.

<sup>3</sup> In June 2005 we also completed the Open Method of Coordination questionnaire

<sup>4</sup> Bradshaw, J. and Bennett, F., *First Report on the United Kingdom National Action Plan on Social Inclusion: Group of non-government experts in the fight against poverty and social exclusion*, Social Policy Research Unit - University of York, 2003.

<sup>5</sup> Department for Work and Pensions, *United Kingdom National Action Plan on Social Inclusion 2001-2003*, 2001.

<sup>6</sup> Bradshaw, J. and Bennett, F., *Second Report on the United Kingdom Action Plan on Social Inclusion: Group of non-government experts in the fight against poverty and social exclusion*, Social Policy Research Unit - University of York, 2003.

<sup>7</sup> Bradshaw, J. and Bennett, F., *Third Report on the United Kingdom Action Plan on Social Inclusion 2003-2005: Group of non-government experts in the fight against poverty and social exclusion*, Social Policy Research Unit – University of York, 2003.

<sup>8</sup> Department for Work and Pensions, *United Kingdom National Action Plan on Social Inclusion 2003-2005*, 2003; [www.dwp.gov.uk/publications/dwp/2003/nap/index.asp](http://www.dwp.gov.uk/publications/dwp/2003/nap/index.asp)

<sup>9</sup> Department for Work and Pensions, *United Kingdom National Action Plan on Social Inclusion 2003-05: The Annexes*, 2003; [www.dwp.gov.uk/publications/dwp/2003/nap/index.asp](http://www.dwp.gov.uk/publications/dwp/2003/nap/index.asp)

<sup>10</sup> Commission of the European Union, *Joint Report on Social Inclusion: Summarising the Results of the Examination of National Action Plans for Social Inclusion (2003-2005)* {SEC (2002) 1425}COM (2003) 773.

<sup>11</sup> Bradshaw, J. and Bennett, F., *Fourth Report on the United Kingdom Action Plan on Social Inclusion 2003-2005: Group of non-government experts in the fight against poverty and social exclusion*, Social Policy Research Unit – University of York, April 2004.

<sup>12</sup> Bradshaw, J. and Bennett, F., *Fifth Report on the United Kingdom Action Plan on Social Inclusion 2003-2005: Group of non-government experts in the fight against poverty and social exclusion*, Social Policy Research Unit – University of York, 2004.

NAP/inclusion at local level on the basis of different geographical cases, taking into account six key priorities<sup>13</sup> for the period 2003-2005. We therefore included six case studies in the report.

6. The Sixth Report<sup>14</sup> was a critical commentary on the UK government's Implementation Report, which was supposed to be published at the end of June 2005 but was delayed with the Commission's agreement and eventually published in August 2005. Our Report also included an annex devoted to the operation of the European Social Fund.

This Report is the First Semester report for 2006, and as requested is organised into two Chapters. The first Chapter covers key trends, recent policy and legislative developments. The second Chapter covers active inclusion and minimum resources.

## CHAPTER 1: KEY TRENDS, RECENT POLICY AND LEGISLATIVE DEVELOPMENTS

### 1.1 Context

#### *Demographic context*

The population of the UK is growing steadily and will have exceeded 60 million in 2005. This growth is being driven by three factors: an increase in the expectation of life (to 76.3 for men and 80.7 for women in 2003); a slight excess of births over deaths – the total period fertility rate is at sub-replacement level (1.78 in 2004) but the birth rate is held up by cohort effects (the 1960s baby boomers having their children late); and net inward migration, which was estimated at 151,000 in 2003 (more analysis of this in the next semester report).

Of particular relevance to the social inclusion agenda are the following demographic characteristics of the population of the UK:

- High rates of relationship breakdown – about 23 per cent of families with children are lone parent families.
- A decline in marriage being replaced by a rapid increase in cohabitation.
- Very high rates of teenage conceptions.
- A decline in the proportion of large families (See Bradshaw *et al*, 2006).<sup>15</sup>
- A growth in childlessness.
- A very slow ageing of the population - but at present an almost flat dependency ratio.

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<sup>13</sup> These were (in summary) active labour market measures; minimum income schemes; access for the most vulnerable to services; prevent early school leaving/leave transition from school to work; focus on child poverty; help immigrants and ethnic minorities.

<sup>14</sup> Bradshaw, J. and Bennett, F., *Sixth Report on United Kingdom National Action Plan on Social Inclusion 2003-2005: Implementation Report*. Group of non-government experts in the fight against poverty and social exclusion, Social Policy Research Unit, University of York, 2005.

<sup>15</sup> Bradshaw, J., Finch, N., Mayhew, E., Ritakallio, V-M. and Skinner, C., *Child Poverty in Large Families*, Joseph Rowntree Foundation/The Policy Press, 2006.

### *Economic context*

The UK economy has been experiencing an unprecedented uninterrupted ten-year period of economic growth; in the last quarter, growth was 2.5 per cent. In 2005, the UK had the fourth highest employment rate in the EU 25, with 75 per cent (the EU uses LFS data which records 71.7 per cent in 2005) of adults in employment and the third lowest unemployment rate. Inflation is currently 2 per cent. Interest rates at 4 per cent are the lowest for 40 years. National income per capita is second only to the US among the G7. Public expenditure has been rising in real terms and as a proportion of GDP since 1999, to 41.2 per cent in 2004/5. Among the public services benefiting from this have been education (from 4.6 to 5.6 per cent of GDP), health (5.4 to 7 per cent) and transport (1 to 1.6 per cent). The Government has been criticised by the Opposition (and the OECD) for borrowing too much: borrowing is at £11 billion this year and £7 billion next year but it is due to come into surplus the year after. Public investment has been increasing and net debt is 36.4 per cent of national income, considerably lower than in France, Germany, Japan, Italy and the US.

### *Social context*

In the 2005 Implementation Report, the UK claimed an improving trend in 6 out of the 34 Laeken indicators; 28 were broadly constant and none was worsening. In our view, *Opportunity for All*, the UK's main vehicle for monitoring the anti-poverty strategy, is a better source of information about progress overall, in that it covers a wider range of outcomes, provides breakdowns for different groups and is more up to date. The latest (seventh) *Opportunity for All* report<sup>16</sup> was published in autumn 2005:

- Of 60 indicators of social exclusion covering children/young people, working age people, older people and communities, 41 had moved in the right direction since the baseline (mainly 1997), 7 had remained broadly constant, 7 were moving in the wrong direction and for 5 the trend could not be determined.
- Of the 25 indicators covering **children and young people**, 4 were moving in the wrong direction, 3 showed a broadly consistent trend, 14 had improved and 4 have insufficient data available.
- Of the 18 indicators covering **people of working age**, one had moved in the wrong direction, 13 had improved, one had remained broadly constant and there was no data on one.
- Of the 10 indicators covering **older people**, one had moved in the wrong direction, 8 had improved, one was broadly constant.
- Of the 7 indicators covering **communities**, 6 had improved and one had moved in the wrong direction.

## **1.2 Major Trends**

It is admirable that the first sentence of the Implementation Report was 'The fight against poverty and social exclusion is central to the UK government's entire social and economic programme' (p. 3). The indicators suggest that social inclusion in the UK is improving from the dire levels it had reached at the turn of the century. The government's record of effort in terms of expenditure, and activity in terms of

<sup>16</sup> Department for Work and Pensions, *Opportunity for All: Seventh Annual Report 2005*, Cm 6239, The Stationery Office, 2005. The report contained a chapter on 'the European dimension', thus making the link more explicit between the NAP/inclusion and *Opportunity for All*., and potentially adding positively to public awareness of the NAP/inclusion.

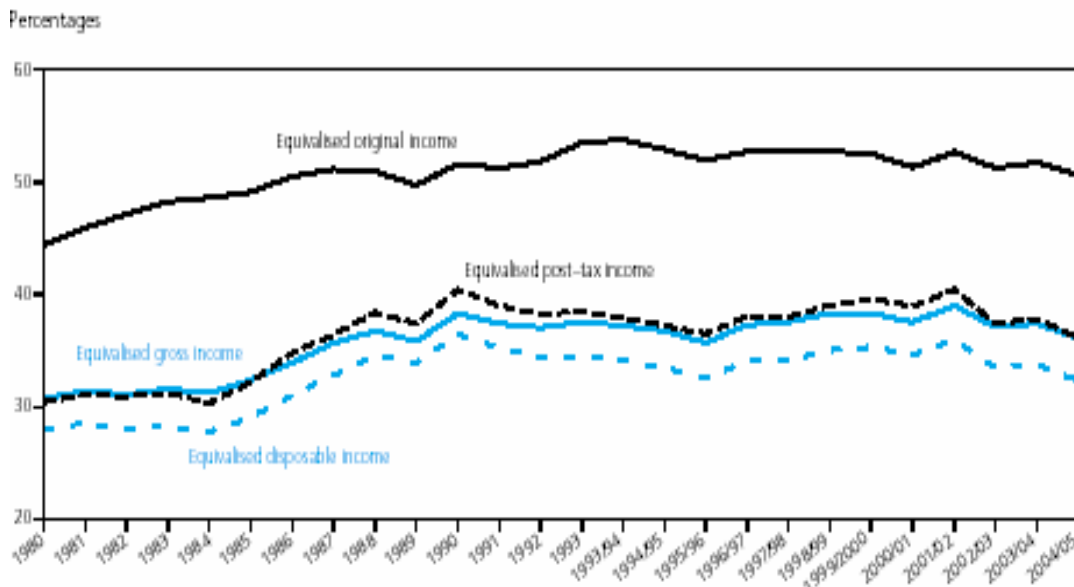
policy initiatives, is very impressive. There is general agreement that the overall strategy is right – work for those who can and security (now sometimes ‘support’) for those who cannot – as well as the mix of short-term improvements in in-work and out-of-work benefits, the minimum wage, New Deals etc., combined with investment in childcare, education and health designed to achieve longer-term benefits. Evidence suggests improvements in low-income families’ incomes have directly benefited their children.<sup>17</sup> Unpublished analysis shows the number of adults experiencing five or more disadvantages falling from 4.8 million in 1997 to 3.66 million in 2003.<sup>18</sup>

*Inequality*

We have consistently advocated a broad-based framework for the NAP/inclusion, encompassing concern about inequalities in income and wealth, discrimination and rights, and framing anti-poverty policies within broader principles. The 2005 Joint Report Annex identified income inequalities as one of the challenges facing the UK. There was one paragraph in the UK’s Implementation Report (1.9, p. 4) on inequality, which reports Gini coefficients derived from *Households Below Average Income* (HBAI) and claims a slight fall between 2001/02 and 2003/04. The series generally used to track income inequality is the ONS series, and the latest edition showed a reduction in the Gini coefficient in 2004/5 (see chart 1). It is still one of the highest in the EU.

**Chart 1: Gini coefficient of net income since 1980**

Figure 6  
Gini coefficients, 1980 to 2004/05



Source: Jones, F. (2006) Figure 6<sup>19</sup>

<sup>17</sup> Waldfogel, J., Gregg, P. and Washbrook, E., *Expenditure Patterns Post-Welfare Reform in the UK: Are Low-income Families Starting to Catch Up?*, CASEpaper 99, Centre for Analysis of Social Exclusion, London School of Economics, 2005.

<sup>18</sup> Unpublished analysis by Institute of Social and Economic Research, University of Essex, 2005.

<sup>19</sup> Jones, F. (2006) Impact of taxes and benefits on household income 2004/5, *Economic Trends*, 630 1-32 [http://www.statistics.gov.uk/articles/economic\\_trends/ET\\_May\\_Francis\\_Jones.pdf](http://www.statistics.gov.uk/articles/economic_trends/ET_May_Francis_Jones.pdf)

As we argued in our last report, the key indicators in the most recent Status Report on health inequalities show no improvement.<sup>20</sup> On life expectancy, the data for 2001-03 indicate that since the baseline (1997-99), the relative gap in life expectancy between England as a whole and the fifth of local authorities with the lowest life expectancy has increased for males and females. For infant mortality, the rate for the 'routine and manual' group was 19 per cent higher than for the total population in 2001-03, compared with 13 per cent higher in the baseline period (1997-99). The government has published a strategy to improve the health and wellbeing of working age people.<sup>21</sup>

A Commission for Equality and Human Rights will be established in 2007 (the race relations watchdog, the Commission for Racial Equality, will join in 2009).<sup>22</sup> In the run-up to this, various milestones have included the creation of an Office for Disability Issues, a cross-government office to ensure departments work together to tackle disability discrimination.<sup>23</sup> An equalities review was set up in 2005, charged with examining the reasons for persistent inequalities. Its interim report set out findings on the extent of such inequalities, offering ideas on how to address them, and proposing a framework to determine priorities.<sup>24</sup> It was set up primarily to consider (in)equality by sex, ethnicity, disability, sexual orientation, religion and belief, and age, and it is not clear how far it will bring these together with economic inequalities. There is a separate review of the existing equality legislation on gender. Regulations were published in spring 2006 to outlaw age discrimination, with no worker being forced to retire before 65. A Commission of business leaders will also advise the government on helping the private sector tackle race discrimination in employment.

### *Child poverty*

The abolition of child poverty is key to the UK government's strategy. The target in the Prime Minister's Toynbee Hall speech was 'to eradicate child poverty within a generation'. Subsequently, the Treasury set out further objectives: to eradicate child poverty by 2020, to halve it by 2010 and 'to make substantial progress towards eliminating child poverty by reducing the number of children in poverty by at least a quarter by 2004'.<sup>25</sup> The wording of the target was then altered: 'To reduce the number of children in low-income households by at least a quarter by 2004 as a contribution towards the broader target of halving child poverty by 2010 and eradicating it by 2020 ... The target for 2004 will be monitored by reference to the number of children in low-income households by 2004/5. Low-income households are defined as households with income below 60% of the median as reported in the HBAI statistics... Progress will be measured against the 1998/9 baseline figures and methodology'.<sup>26</sup> Chart 1 shows poverty trends for children including the latest available data.

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<sup>20</sup> (<http://www.dh.gov.uk/assetRoot/04/11/76/98/04117698.pdf>)

<sup>21</sup> *Health, Work and Wellbeing: Caring for our future – A strategy for the health and wellbeing of working age people*, Department of Health, 2005.

<sup>22</sup> *Equality Bill*, The Stationery Office, 2005.

<sup>23</sup> Department for Work and Pensions, press release, 1 December 2005.

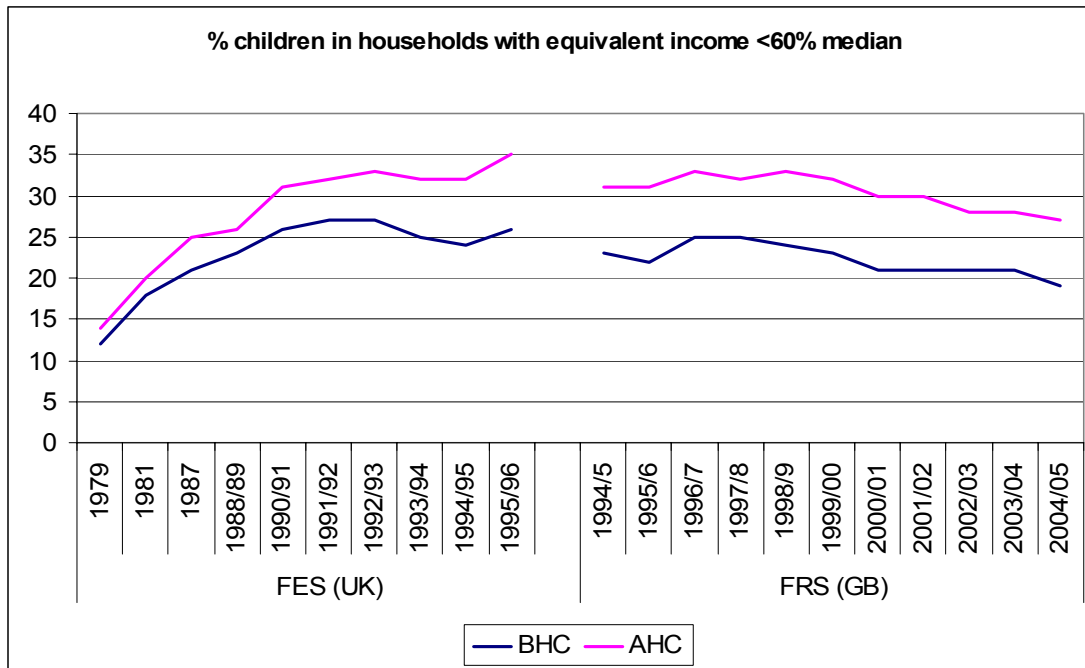
<sup>24</sup> Equalities Review, *The Equalities Review: Interim report for consultation*, Cabinet Office, 2006.

<sup>25</sup> HM Treasury, *Spending Review 2002: Public Service Agreements 2001-2004*, Cm 4808, The Stationery Office, 2000.

<sup>26</sup> HM Treasury, 'Technical Note for HM Treasury's Public Service Agreement 2003-2006', HM Treasury, 2002.



Chart 2: Child poverty rate (equivalent income less than 60 per cent median): HBAI Table H.2



The latest *Households below Average Income* (HBAI) statistics were published in March 2006.<sup>27</sup> They provide a detailed picture of poverty rates and composition up to 2004/5 using a variety of thresholds. A few years ago, there was a general consensus that the government was on track to meet its five-year poverty target. This was certainly the view of the Work and Pensions Select Committee Inquiry on Child Poverty,<sup>28</sup> and para. 1.21 of the Implementation Report claimed that ‘we are broadly on track to meet our target to reduce the number [of children in poverty] by a quarter from 1998/99 to 2004/05’. However, the 2003/4 child poverty results were very disappointing, with no significant reduction either before or after housing costs. The latest results show that the government failed to reach its target – child poverty rates fell by 23 per cent before housing costs and 17 per cent after housing costs between 1998/9 and 2004/5 (see Table 1). In its recent report on progress in tackling poverty, however, the government reaffirmed its target of eliminating child poverty by 2020.<sup>29</sup>

<sup>27</sup> Department for Work and Pensions, *Households Below Average Income 1994/95 to 2004/05*, DWP, 2006.

<sup>28</sup> House of Commons Work and Pensions Select Committee, *Child Poverty in the UK*, Second Report (Session 2003-04), HC 85-1, The Stationery Office, April 2004.

<sup>29</sup> Department for Work and Pensions, *Making a Difference: Tackling poverty – a progress report*, 2006.

**Table 1: % children living in households with equivalent income less than 60 per cent of the median, including the self employed.**

	Before housing costs. % of children	After housing costs. % of children
1998/99	24	33
1999/00	23	32
2000/01	23	30
2001/02	21	30
2002/03	21	28
2003/04	21	28
2004/05	19	27
Number in 1998/99	3.1 million	4.1 million
Number in 2004/05	2.4 million	3.4 million
Reduction in number 1998/99-2004/05	700,000	700,000
% reduction in number 1998/9-2004/05	23	17

Source: HBAI 2006

There is a good deal of uncertainty about why the government failed to meet its target. It appears that it could be a combination of:

- sampling error in the Family Resources Survey, exacerbated by a large number of children within 5 per cent of the poverty thresholds;
- lower take-up of child tax credit than expected;
- under-recording of receipt of child tax credit in the Family Resources Survey.

Having failed to meet its five-year target, it is clear that even greater efforts will be needed to meet the next targets in 2010 and 2020 (as noted in the 2006 Joint Report Annex). A committee of MPs urged the government to set out in more detail possible additional measures to meet its target to halve child poverty by 2010-11.<sup>30</sup>

Without additional policy measures, the child poverty rate will rise, because median earnings rise faster than increases in cash/tax benefits. Although the child element of child tax credit is presently fixed to movements in earnings, the adult amounts are linked to prices and the family element has not been increased at all in recent years.

In the absence of further substantial changes in cash and tax benefits for families with children, the only prospect is radical changes in employment among such families. The employment rate of lone parents has been rising – the latest estimate is that it is 56.5 per cent. But it is not rising fast enough to meet the government target of 70 per cent by 2010, and it is probable that the job is going to get harder – and will be more difficult still to achieve for workless couples (for more discussion, see Chapter 2).

<sup>30</sup> House of Commons Treasury Select Committee, *The 2006 Budget*, Fourth Report, Session 2005-06, HC 994, The Stationery Office, 2006.

Further, just over half of poor children are living in households with at least one parent already in employment. The only way to lift them above the poverty threshold is for them to earn more and/or receive higher rates of in-work benefits/tax credits. The national minimum wage is due to increase by more than average earnings, from £5.05 to £5.35 per hour, in October 2006, benefiting 1.3 million workers (*Hansard, Written Answers 27.10.05, col. 496W*). Higher tax credits and benefits, and higher earnings (because many low paid people are public sector workers), will require increases in spending needing increased taxation. But the government has set its face against increasing the basic or higher rates of income tax during this Parliament.

One possible cause for optimism is that there may be a developing consensus around the child poverty cause. In March 2006, the Fabian Society published the report of the Commission on Life Chances and Child Poverty,<sup>31</sup> which argued that life chances should be central to a new politics of equality. The report was greeted warmly in most parts of the media, and subsequently on 11 April the Conservative Opposition policy spokesman, Oliver Letwin, announced that the Conservative Party shared the government's child poverty objectives (though it is not yet clear what policies they will follow, and how these may differ from those of the government). The Joseph Rowntree Foundation will also shortly (in summer 2006) be publishing the results of its UK child poverty inquiry, 'What will it take to end child poverty?', which examines costed options for ways of ending child poverty in the UK by 2020.<sup>32</sup>

One recommendation in the Fabian Commission report was that more emphasis should now be put on non-means-tested support for families with children. Take-up rates of child tax credit are very high amongst low-earning families and lone parents.<sup>33</sup> But the overall take-up rate is 79 per cent, and many families have suffered from the administrative problems and overpayments that have beset the scheme.<sup>34</sup> Moreover, the one in ten children living in severe poverty<sup>35</sup> are more likely to be receiving child benefit than any of the benefits or tax credits specifically designed for them. This suggests, especially in the context of the government's inquiry into benefits simplification, that a universal benefit such as child benefit has a key role.

In addition, the government highlighted some time ago that the increased risk of poverty for children in large families was a particular cause for concern – although in fact poverty amongst large families has been decreasing more rapidly than for others.<sup>36</sup> But the pattern of support for children has increasingly focused more on the first or only child.<sup>37</sup> Whilst this is now being reversed to some extent by the uprating of the child element of child tax credit by earnings, as noted above, a strong argument is developing for increasing the rate of child benefit for second and subsequent children to the same rate as for the first or eldest eligible child. Child benefit for the latter children has increased in real terms by about a quarter under this government, whereas for second and subsequent children it has only increased in line with prices.

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<sup>31</sup> Fabian Society, *Narrowing the Gap: The Fabian Commission on Life Chances and Child Poverty*, Fabian Society, 2006.

<sup>32</sup> See <http://www.jrf.org.uk/child-poverty/>

<sup>33</sup> HM Revenue and Customs, *Child Tax Credit and Working Tax Credit: Take-up rates 2003-04*, 2006.

<sup>34</sup> House of Commons Public Accounts Select Committee, *Inland Revenue Standard Report: New tax credits*, Thirty-seventh Report, Session 2005-06, HC 782, 2006.

<sup>35</sup> Magadi, M. and Middleton, S., *Britain's Poorest Children Revisited: Evidence from the BHPS (1994-2002)*, Save the Children, 2005.

<sup>36</sup> Bradshaw, J., Finch, N., Mayhew, E., Ritakallio, V-M. and Skinner, C., *Child Poverty in Large Families*, Joseph Rowntree Foundation/Policy Press, 2006.

<sup>37</sup> Adam, S. and Brewer, M., *Supporting Families: The financial costs and benefits of children since 1975*, Policy Press for Joseph Rowntree Foundation, 2004.

The government has recently put more emphasis on parenting support, changing to some extent the 'hands off' approach to family policy for which the UK has been known. It plans to spend £53 million over two years to improve services and support for families, including piloting new parent support advisors in schools.<sup>38</sup> This emphasis has by and large been welcomed – and even those parents who are obliged to attend parenting courses apparently value them. But there is some concern about the extension of compulsion proposed by the prime minister (2 September 2005).<sup>39</sup> And, in part stimulated by the government's failure to meet its interim child poverty target, there is a debate about the relative efficacy of spending on cash transfers versus spending on services for families with children – though most key commentators agree that this is a false dichotomy. In the 2006 Budget, the government announced a joint policy review on children and young people to inform the 2007 comprehensive spending review, with a focus on families with disabled children, youth services and services for families at risk of a low achievement cycle.<sup>40</sup>

The government will shortly announce its conclusions about a new poverty threshold which will be based on a tiered system and include a measure based on relative low income and a lack of socially perceived necessities. There is some anxiety that, though there is pretty general agreement that such a measure is better than a purely income based measure, they may in the process seek to "move the goal posts" by altering the child poverty target.

#### *Pensioner poverty*

The government has been much more successful in reducing the pensioner poverty rate, which (after housing costs) has fallen from 27.9 per cent in 1996/97 to 17 per cent in 2004/05 (see Chart 3), with a large reduction in the last year. The pensioner poverty rate is now lower than the general poverty rate. And the AHC pensioner poverty rate is now lower than the BHC rate, thanks to an increase in the proportion of pensioners who are owner occupiers. This reduction in poverty has been achieved by an increase in the proportion of pensioners retiring with occupational pension entitlements, a very modest real increase in the basic state pension after 2002, and much more substantial increases in the real level of pension credit – the means-tested pension – as well as a moderately successful campaign to increase take-up of pension credit by the Pensions Agency.

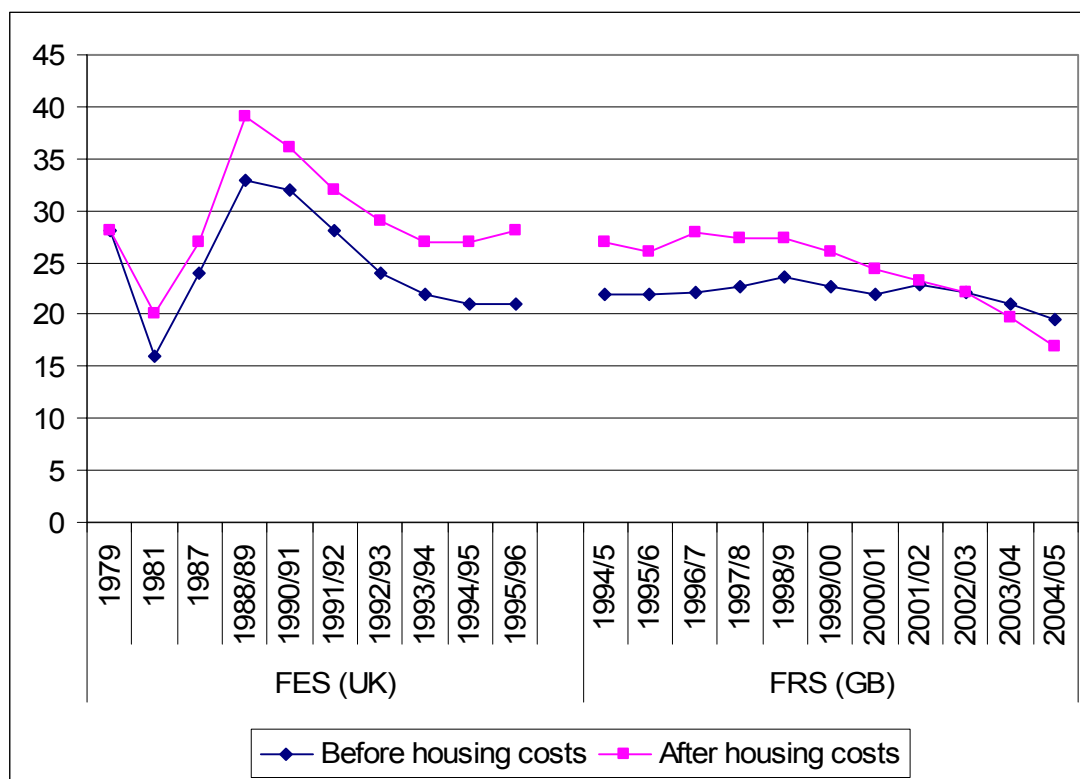
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<sup>38</sup> HM Treasury and Department for Education and Skills, *Support for Parents: The best start for children*, 2005.

<sup>39</sup> Eg see Commission on Families and the Wellbeing of Children, *Families and the State: Two-way support and responsibilities*, Policy Press, 2005, calling for a less punitive and more supportive approach to families.

<sup>40</sup> HM Treasury, *Budget 2006*, Cm 968, The Stationery Office, 2006.

Chart 3: Pensioner poverty rate (equivalent income less than 60 per cent median): HBAI Table H.4



Pensions policy is now the subject of lively debate in the UK after publication of the Final Report of the Pensions Commission.<sup>41</sup> No doubt this will be dealt with in detail in comments the European Commission will receive on the pension element of the NRSPI. Meanwhile, from a social inclusion perspective there are a few key points to make:

- The Government's original ambition to move pensions provision in the UK from a 60/40 public/private split to a 40/60 public private split is in tatters.
- Participation in non-state provision in the private sector is declining quite rapidly.
- Without further reform the proportion of pensioners on means-tested Pension Credit already 50 per cent will rise to 75% by 2050<sup>42</sup>.
- The Pensions Commission has proposed a three-part strategy for pensions:
  - Make the basic state pension more generous, less reliant on means tests and paid for by a gradual increase in the retirement age
  - Automatic enrolment of all employees not in a good pension into pension saving
  - A National Pensions Saving Scheme.

Much of the debate about these proposals concerns the balance between the contribution of the basic state pension and private provision for reducing the scope for means-testing, and also how important that should be as a goal. A White Paper is due later in spring 2006; but it is rumoured that the

<sup>41</sup> Pensions Commission, *Implementing an Integrated Package of Pension Reforms: The final report of the Pensions Commission*, 2006; see also Pensions Commission, *A New Pension Settlement for the Twenty-first Century*, The Stationery Office, 2005.

<sup>42</sup> House of Commons *Hansard Oral Answers* 9.1.06 col 13

government is likely to accept the bulk of the Pensions Commission proposals. It is currently consulting widely on them.

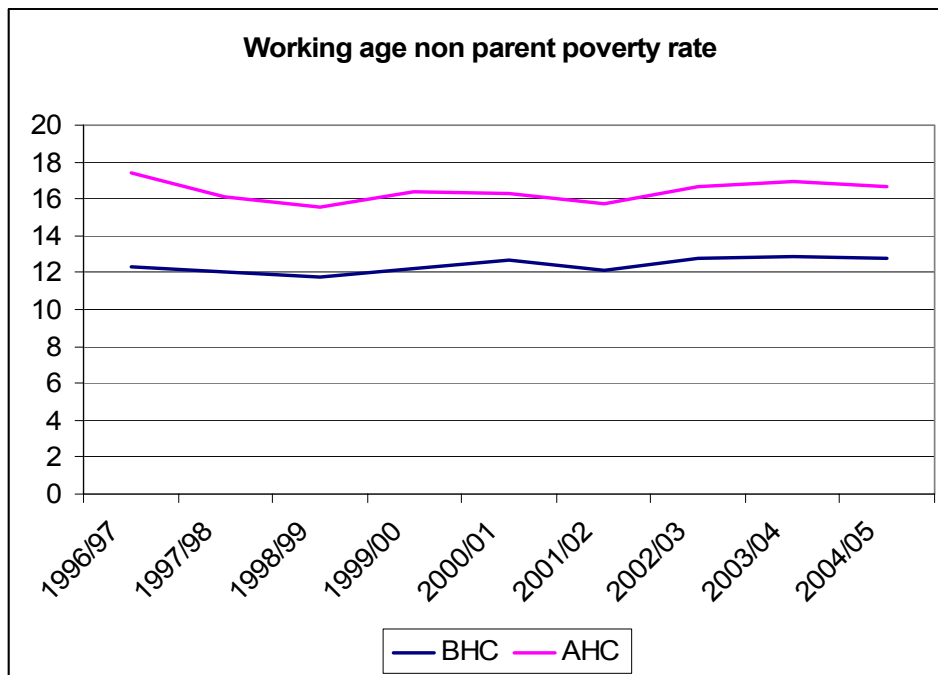
*Disability*

The most recent in a series of annual reports monitoring indicators of poverty and social exclusion highlighted issues concerning disabled people. Three out of ten disabled adults of working age were living in poverty – a higher proportion than a decade previously, and double the rate among non-disabled adults. Disabled adults were in fact more likely to live in poor (low income) households than either pensioners or children. These figures are based on *Households Below Average Income* data and so do not take into account the higher costs often faced by disabled people.<sup>43</sup>

*Working age childless people*

Chart 4 shows that the poverty rate for working age adults (i.e. single people without children and childless couples) has not moved in recent years. The reasons for this are that they do not benefit as much from in-work benefits/tax credits and their out-of-work benefits have not been increased in real terms since the mid 1970s.

**Chart 4: Working age non parent poverty rate: (equivalent income less than 60 per cent median):  
Source: Brewer *et al*, 2006**



<sup>43</sup> Palmer, G., Carr, J. and Kenway, P., *Monitoring Poverty and Social Exclusion 2005*, York Publishing Services for Joseph Rowntree Foundation, 2005.

## *Employment*

The government would argue that the solution to out-of-work poverty lies not in raising out-of-work income levels, but in getting those out of work into employment. 'The key labour market objective is to achieve high and stable levels of employment so everyone can share in growing living standards and greater job opportunities'.<sup>44</sup>

Compared with some other EU countries, the UK's labour market has been remarkably buoyant.<sup>45</sup> Since June 2001, overall employment has risen- to a rate for the quarter ending in December 2005 of 74.5 per cent. However, the employment rate fell slightly in the last quarter and labour market slack<sup>46</sup> rose to 12.4 per cent of the workforce. ILO unemployment at 5.1 per cent rose in the last quarter, broad unemployment increased to 6.9 per cent, but the claimant count was slightly down, at 2.9 per cent. The government's new goal for employment is 80 per cent (see below).

The most recent comparative analysis (for 2003)<sup>47</sup> shows that the UK still has the highest proportion of children under 17 living in workless households. There has been increasing concern about the spatial concentration of unemployment/worklessness in particular cities, towns, neighbourhoods, estates and even streets. The Social Exclusion Unit report in 2004<sup>48</sup> showed that in the worst affected 1 per cent of streets, more than half of all adults are out of work. Worklessness in the worst tenth of streets is 23 times higher than in the best, and this accounts for 716,000 people on jobseeker's allowance or incapacity benefit - more than a quarter of the national total.

Even before the worrying evidence that employment has stopped growing, there was concern that the government will miss its target to increase lone parents' employment to 70 per cent by 2010 and will not significantly improve the proportion of disabled people and/or those on incapacity benefits in employment. (See Chapter 2.)

## *Gender*

Many of the government's policies have been very positive for women. For example, some £2 billion is being transferred from men to women due to reforms to benefits and tax credits.<sup>49</sup> The proportion of lone parents in employment has increased and many are better off (see below). About two-thirds of workers benefiting from increases in the minimum wage are women. And there has been an effort to focus on pensions for women, with an official report concluding that inequalities in retirement could not be tackled in isolation from those of working life;<sup>50</sup> men and women are now equally likely to be accruing

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<sup>44</sup> Department for Work and Pensions, *Opportunity for All: Fourth Annual Report 2002*, Cm 5598, The Stationery Office, 2002, p. 21.

<sup>45</sup> Data in this paragraph is derived from recent editions of the Centre for Economic and Social Inclusion's *Working Brief*.

<sup>46</sup> An indicator produced by Inclusion which includes all those who want to work and those who are working part time because they cannot get a full-time job.

<sup>47</sup> Source: [http://europa.eu.int/comm/employment\\_social/soc-prot/soc-incl/sec\\_2003\\_1425\\_jir\\_annex\\_en.pdf](http://europa.eu.int/comm/employment_social/soc-prot/soc-incl/sec_2003_1425_jir_annex_en.pdf)

<sup>48</sup> Social Exclusion Unit, *Jobs and Enterprise in Deprived Areas*, Office of the Deputy Prime Minister, 2004. Because of the SEU's remit, the data relate only to England.

<sup>49</sup> HM Treasury, *Pre Budget Report*, Cm 6042, The Stationery Office, 2003.

<sup>50</sup> Department for Work and Pensions, *Women and Pensions: The evidence*, 2005.

additional state pension rights, though men are still more likely to be accruing more than women (para. 30).<sup>51</sup>

Some progress on more comprehensive gender analysis has also been made. There is now more gender analysis in *Households Below Average Income* statistics, though this could still be improved. The NAP/inclusion has always been more 'gender aware' than *Opportunity for All*. The latest edition of *Opportunity for All* did include a chapter on women, however. But the chapter – as it noted itself – was about women, rather than gender. It did not comprise an analysis of poverty and social exclusion from a gender perspective, but rather statistics about women's position in society. Yet Bradshaw *et al.* (2003) concluded: 'Many factors underlying poverty have their origins in the gendered nature of society. Without recognising this or monitoring the impact of policies on women and men alike, poverty will remain a feature of society'.

The government does argue that 'gender analysis can contribute to the evidence base which is used to inform policy development, implementation and evaluation'.<sup>52</sup> It has experimented with gender impact assessment; and gender disaggregated statistics have increased. The Women and Equality Unit has published a guide to gender impact assessment. But gender analysis still seems to be more widespread, and expert, outside government. For example, gender analysis of poverty, and of benefits/tax credits policies, has been undertaken by the Equal Opportunities Commission (EOC),<sup>53</sup> and groups such as the Fawcett Society<sup>54</sup> and the Women's Budget Group.<sup>55</sup>

The Women and Work Commission published its report on the gender pay gap,<sup>56</sup> which the government acknowledges is one of the widest in Europe; the 2005 Joint Report Annex also notes that low pay among women is a challenge for the UK. The report proposed wide-ranging action, but rejected compulsory equal pay audits, and was criticised by campaigners for timidity. In fact, occupational segregation by sex declined (across all ethnic groups) during the 1990s in England and Wales to a larger extent than in past decades.<sup>57</sup> The gender pay gap also narrowed for those on full-time earnings, from 14.5 to 13.2 per cent, in 2004-05.<sup>58</sup> But women part-time workers have been the focus of recent attention. The EOC said that flexible and part-time working arrangements were failing to meet the needs of working women and men, leading to 5.6 million part-time workers (4 out of 5) working in jobs below their potential.<sup>59</sup> This suggests that the strategy on flexible working hours needs to be improved.

The Women and Equality Unit is responsible, with others, for achieving the Public Service Agreement on improving gender equality, to which the government has been committed since 2002.<sup>60</sup> Chapter 2 of

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<sup>51</sup> Though some commentators have argued that in the longer term current policies would mean that the increased emphasis on private pension provision, leaving only low earners in the state scheme for their second pensions, will have a detrimental impact on women's pension entitlement.

<sup>52</sup> HM Treasury and Department of Trade and Industry, *Gender Analysis of Expenditure Project: Final report*, The Stationery Office, 2004, p. 3.

<sup>53</sup> Bradshaw, J., Finch, N., Kemp, P., Mayhew, E. and Williams, J., *Gender and Poverty in Britain*, EOC, 2003; Yeandle, S., Escott, K., Grant, L. and Batty, E., *Women and Men Talking About Poverty*, EOC, 2003; Bennett, F., *Gender and Benefits*, Working Paper Series 30, EOC, 2005.

<sup>54</sup> See, for example, Bellamy, K., Bennett, F. and Millar, J., *Who Benefits? A gender analysis of the UK benefits and tax credits system*, 2006.

<sup>55</sup> Women's Budget Group, *Women's and Children's Poverty: Making the links*, 2005.

<sup>56</sup> Women and Work Commission, *Shaping a Fairer Future*, Department of Trade and Industry, 2006.

<sup>57</sup> Blackwell, L. and Guinea-Martin, D., 'Occupational segregation by sex and ethnicity in England and Wales, 1991 to 2001', *Labour Market Trends*, Office for National Statistics, The Stationery Office, December 2005.

<sup>58</sup> Office for National Statistics, *Annual Survey of Hours and Earnings: 2005 Results*, Palgrave Macmillan, 2005.

<sup>59</sup> Equal Opportunities Commission, *Britain's Hidden Brain Drain*, 2005.

<sup>60</sup> A progress report was published in March 2005; see [www.womenandequalityunit.gov.uk](http://www.womenandequalityunit.gov.uk).



the latest *Opportunity for All* report described the gender mainstreaming initiatives being taken by the devolved administrations. In 2007, public bodies will come under a new statutory obligation to promote gender equality.<sup>61</sup> Campaigners are hoping this will give a new lease of life to gender impact assessment, and that this will be evident in the government's anti-poverty strategy.

### 'Race'

The government published a strategy to increase race equality and build a cohesive society.<sup>62</sup> England and Wales may be becoming more racially integrated: the number of racially mixed neighbourhoods/wards - with at least one in ten people from an ethnic minority - increased from 964 to 1,070 over the 1990s, and by 2010 should rise to 1,300.<sup>63</sup> But in the local elections in May 2006, the British National Party did better than expected,<sup>64</sup> this was interpreted by some as politicians from other parties having lost touch with the real concerns of parts of the electorate. A new book explored the impact of changes in welfare entitlement rules, with 'need' becoming more important, on race relations in the East End of London.<sup>65</sup>

The Racial and Religious Hatred Act (2006) introduces a new offence of incitement to religious hatred. And the Immigration, Asylum and Nationality Act 2006 restricts appeals for people refused entry to the UK, tackles illegal working, allows data sharing between authorities and (re)introduces vouchers rather than cash as support for failed asylum-seekers. A new points-based immigration system for those from outside the EU makes entry more difficult for low-skilled people.<sup>66</sup>

## 1.3 Policy and legislative developments

This summary highlights areas of particular relevance to poverty and social exclusion. Beyond the areas discussed here, developments in broader social policy have included debates about foundation trusts in the National Health Service, and trust schools, championed by their supporters in part as a means of extending to poorer service users the choice enjoyed by the better off; they are also defended as a means of ensuring that middle class consumers remain in the public sector. Their opponents draw the opposite conclusions and believe inequalities will be exacerbated. In the housing field, homelessness acceptances are decreasing, and local authorities also expect numbers in temporary accommodation to continue to fall. But a review of the recommendations of a 1991 inquiry into British housing argued that whilst billions of pounds were saved by abolishing mortgage interest tax relief this had not been spent on housing.<sup>67</sup> And Shelter revealed that homelessness is worse now than 40 years ago.

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<sup>61</sup> Women and Equality Unit, *Advancing Equality for Men and Women: Government proposals to introduce a public sector duty to promote gender equality*, Department of Trade and Industry, 2005.

<sup>62</sup> Home Office, *Improving Opportunity, Strengthening Society: The Government's Strategy to Increase Race Equality and Community Cohesion*, 2005.

<sup>63</sup> Simpson, L., *Statistics of Racial Segregation: Measures, evidence and policy*, Occasional Paper 24, Centre for Census Survey Research, University of Manchester, 2005.

<sup>64</sup> John, P., Margetts, H., Rowland, D. and Weir, S., *The BNP: The roots of its appeal*, Democratic Audit/Human Rights Centre, University of Essex, available from Joseph Rowntree Charitable Trust, 2006.

<sup>65</sup> Dench, G., Gavron, K. and Young, M., *The New East End: Kinship, race and conflict*, Profile Books, 2006.

<sup>66</sup> Home Office, *A Points-based System: Making migration work for Britain*, Cm 6741, The Stationery Office, 2006.

<sup>67</sup> Best, R., *Inquiry into British Housing 1984-1991: What has happened since?*, YPS for Joseph Rowntree Foundation, 2005.

*Welfare reform*

In January 2006, the government published a Green Paper on welfare reform.<sup>68</sup> It set out proposals to achieve an 80 per cent employment rate for working age people, by reducing incapacity benefit claimants by 1 million, and helping 1 million older workers and over 300,000 lone parents into employment. Perhaps wisely, no numerical targets are set for partners of claimants or carers; the government has found these two groups to have varied needs, and is still developing a definitive strategy. But it has begun investigating the barriers to work they face in more detail.<sup>69</sup>

Proposals for incapacity benefit are the most developed, and include a new gateway to benefits for people with illness and disabilities; revision of the medical assessment procedures, focusing on ability and support needs, rather than incapacity; mandatory work-focused interviews, supported by a mandatory action plan of return to work activity for new and existing claimants; and a new 'employment and support allowance' (combining contributory and means-tested support). Delivery via voluntary and private organisations is suggested for certain elements (such as Pathways to Work for those on incapacity benefits, and plans for cities to develop labour market activation strategies). In the meantime, cuts in civil service manpower are proceeding, as a result of the Gershon Review. The focus on personal advisers and more assessment for people on incapacity benefits suggests increasingly labour-intensive processes, which will need significant resourcing if they are to be effective.

In the run-up to publication of the Green Paper, media leaks suggested that there would be a much tougher benefit regime for sick and disabled people. Trades unions and lobby groups, whilst generally welcoming the emphasis on support rather than compulsion, are concerned about whether this will be the reality in practice.<sup>70</sup> In particular, whilst lone parents will benefit from an additional 'activity premium' if they are prepared to seek work, increased conditionality may impact on the voluntary New Deal for Lone Parents. It is not yet clear what benefit levels will be under the new system, but the employment and support allowance (whilst temporary) is likely to mean a cut in incomes for some incapacity benefits claimants, and will be paid at a lower rate for young people. The Disability Rights Commission says employers (who it argues discriminate against disabled applicants) have responsibilities too.<sup>71</sup>

The government says its longer-term vision is for a 'single, transparent system, with a single gateway to financial and back-to-work support for all claimants' (p. 11). The creation of Jobcentre Plus was a step on the way to this goal, in bringing together benefits and employment services. But a new report says that although Jobcentre Plus has had a clear positive impact on job entry outcomes for all client groups, it has had a negative effect on business delivery and no effect on customer service outcomes.<sup>72</sup>

The government states that 'it is the social injustice inflicted by the poverty trap of benefit dependency that makes keeping the status quo indefensible' (p. 2); but others argue that it is the low benefit levels paid to out of work claimants (see above), rather than the fact that they are on benefit, that is the key problem. In addition, a more comprehensive gender analysis (see above) could lead to more value

<sup>68</sup> Department for Work and Pensions, Green Paper, *A New Deal for Welfare: Empowering people to work*, Cm 6730, The Stationery Office, 2006.

<sup>69</sup> See Perry, J., *Partners Who Care: An evidence paper*, Working Paper 24, Department for Work and Pensions, CDS, 2005; Hasluck, C. and Green, A., *Workless Couples and Partners of Benefit Claimants: A review of the evidence*, Department for Work and Pensions Research Report 262, CDS, 2005.

<sup>70</sup> See, for example, responses from the Trades Union Congress and Child Poverty Action Group.

<sup>71</sup> Disability Rights Commission, *Welfare Reform Policy Paper*, 2005.

<sup>72</sup> Karagiannaki, E., *Exploring the Effects of Integrated Benefit Systems and Active Labour Market Policies: Evidence from Jobcentre Plus in the UK*, CASEPaper 107, Centre for Analysis of Social Exclusion, London School of Economics, 2006.

being placed on non-means-tested benefits for their lack of disincentives to partners' employment and more developed thinking about the relationship between paid and unpaid work.

### *Child support policy*

Child support is a private transfer, which for many people is mediated by the government, and mainly benefits lone parents. Children in lone-parent families were 43 per cent of all poor children in 2004/5. So child support could help reduce child poverty. Labour aimed to reform the old system, with a simpler formula, a £10/week disregard for those on income support (IS), and a 100% disregard for tax credits.

In many respects this was a better anti child poverty measure than the old scheme, though it was less generous to parents with care (average for one child £16/week less) and probably slightly more severe on non-resident parents. However, the new system has failed to deliver. It was due to be introduced from 2001, but finally began in March 2003. Because of management and IT problems, none of the performance targets is being met. The Work and Pensions Committee found that over 700,000 cases were still in the old system and so not benefiting from the disregard if they were on IS. It concluded<sup>73</sup> that the Child Support Agency (CSA) was 'in crisis'. A new Chief Executive undertook an urgent review; but his plans involved additional spending and insufficient improvement. So the Secretary of State announced (*Hansard*, 9 February 2006) another review, by Sir David Henshaw, to redesign the system. The Secretary of State said £600 million of maintenance was collected, twice the 1997 level, but the 'performance of the Agency remains unacceptable'. Only 30 per cent of lone parents receive maintenance; under 15 per cent of those on benefit receive any via the CSA. The CSA is developing a strategy to drive up performance and implement the new scheme effectively. But it is not clear if this will succeed.

### *Indebtedness/financial exclusion*

The Annex to the 2006 Joint Report states that in the UK 'personal debt is at record high levels'. Debt is an issue emphasised by people with experience of poverty in their input to the NAP/inclusion.<sup>74</sup> The over-indebted are typically in their 20s/30s, have children, live in rented accommodation and earn less than £9500 per year.<sup>75</sup> The effect of envy is small compared with age, income and changes in circumstances.<sup>76</sup>

There has been intensive government activity on debt and financial exclusion.<sup>77</sup> In addition, consumer bodies launched 'super-complaints' against home credit providers, and energy suppliers' handling of fuel bills. But there is a debate over how to tackle over-indebtedness, especially about the pros and cons of a maximum (legal) interest rate. The Consumer Credit Act (2006) did not include a ceiling, though the government left this open for the future; it does allow unfair credit agreements to be challenged in court. There is also a difference in emphasis – on income inadequacy, often emphasised by grassroots groups, or financial exclusion and/or lack of financial capability, often emphasised by the

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<sup>73</sup> House of Commons Work and Pensions Committee, *The Performance of the Child Support Agency*, Second Report of Session 2004-05, HC 44, 2005.

<sup>74</sup> See, for example, Submission to Department for Work and Pensions, *Get Heard!*, 2006.

<sup>75</sup> Department of Trade and Industry, *Over-indebtedness in Britain: A DTI Report on the MORI Financial Services Survey 2004*, DTI, 2005.

<sup>76</sup> McKay, S., 'Debt: envy, penury or necessity?', *Seven Deadly Sins: A New Look at Society Through an Old Lens*, Economic and Social Research Council, 2005.

<sup>77</sup> HM Treasury, *Promoting Financial Inclusion*, 2004; a Financial Inclusion Task Force was set up.

government.<sup>78</sup> There is agreement on the importance of debt advice, but concern about plans to allow direct deductions for repayments from benefits.<sup>79</sup> Borrowing from the Social Fund was made easier from April 2006, and access to affordable credit is being improved; but the Social Fund is criticised for being complex and prone to errors. There is a major drive to persuade people to open basic bank accounts. But banks often refuse people, or impose high charges. The proposed withdrawal of the contract for post office card accounts for benefits in 2010 means that banks must improve their treatment of low income clients.

*Adults with literacy/numeracy/low basic skills problems*

Statistics indicate that government targets on tackling skills shortages among young people and adults are being met early. There was a 3 per cent rise in 2005 in the number of those aged 19 achieving 'level 2' qualifications, and a 3.5 per cent rise in those achieving 'level 3'.<sup>80</sup> An interim official report said the skills profile in the UK has improved recently.<sup>81</sup> And an audit report said that Ufi (established in 1998) had done a good job in establishing the 'learndirect' service in a short period.<sup>82</sup> But there is still a significant problem: one in three UK citizens of working age have no basic school-leaving qualification (down from 40% in 1997), and 15% still lack any qualification (18% in 1997).<sup>83</sup> Employer training pilots are now offering free or subsidised training, leading to a basic skills or school-leaving qualification. But more employers need to be persuaded of the value to their businesses of employment-related education and skills training, according to the National Audit Office.<sup>84</sup>

An evaluation of 'Skills for Life' showed that it had improved employability, but not employment (though employment gains may follow).<sup>85</sup> A committee of MPs said the government's targets could become increasingly hard to meet, because of having to attract 'hard to reach' learners.<sup>86</sup> And the Learning and Skills Development Agency says that to achieve the target for economically active adults qualified to school leaving level would mean roughly doubling current trends.<sup>87</sup>

The Social Exclusion Unit is looking at how to overcome the barriers to effective service provision for people with poor basic skills, amongst other disadvantaged groups.<sup>88</sup> The New Deal for Skills will trial an adult learning option from October 2006, to test the provision of financial support for adult Jobcentre Plus clients to take up a Level 2 qualification. There has, however, been some frustration about the

<sup>78</sup> The government's strategy on financial capability is described in: House of Commons *Hansard*, Written Answers 2 May 2006, cols. 1443-1444W.

<sup>79</sup> Edwards, S. and Wheatley, J., *Take it Away: CAB Evidence on the DWP Third Party Deductions Scheme and Financial Inclusion*, Citizens Advice, 2005.

<sup>80</sup> (Level 2 is equivalent to one A level pass and Level 3 to two A level passes.) Statistical first releases 06/2006, 05/2006 and 07/2006, Department for Education and Skills, 2006.

<sup>81</sup> Leitch Review of Skills, *Skills in the UK: The long-term challenge – Interim report*, HM Treasury, 2005.

<sup>82</sup> National Audit Office, *Extending Access to Learning Through Technology: Ufi and the learndirect service*, HC 460, Session 2005-06, The Stationery Office, 2005.

<sup>83</sup> Strategy Unit, *Strategic Audit: Progress and Challenges for the UK*, Cabinet Office, 2005.

<sup>84</sup> National Audit Office, *Employers' Perspectives on Improving Skills for Employment*, HC 461, Session 2005-06, The Stationery Office, 2005.

<sup>85</sup> Metcalf, H. and Meadows, P., *Evaluation of the Impact of Skills for Life Learning: Report on sweep 2*, Research Report 701, Department for Education and Skills, 2005.

<sup>86</sup> House of Commons Public Accounts Select Committee, *Skills for Life: Improving Adult Literacy and Numeracy*, Twenty-first Report, Session 2005-06, HC 792, The Stationery Office, 2006.

<sup>87</sup> Macleod, D., *Modelling Progress Towards the Level 2 Target*, Learning and Skills Development Agency, 2005.

<sup>88</sup> Social Exclusion Unit, *Improving Services, Improving Lives: Evidence and key themes (interim report)*, Office of the Deputy Prime Minister, 2005..

limitation of help with training to Level 2, particularly in the New Deal for Lone Parents. There are now, however, pilots for lone parents in some areas of help with training to Level 3. A gendered perspective would suggest that lifting the sights of women with children in particular will pay dividends in terms of productivity levels.<sup>89</sup>

### *Work-life balance and childcare*

The Work and Families Bill contains powers to extend entitlement to statutory maternity pay and maternity allowance from six months to a maximum of one year (likely by 2010), and creates a new right for fathers to take up to 26 weeks' additional paternity leave if the mother has returned to work before her maternity leave has expired. The government's proposal to extend the right to request flexible working hours to parents of older children and other carers has been welcomed.

The 2005 Joint Report Annex sees a challenge for the UK in building on progress in childcare provision, especially in poorer areas. Childcare places have indeed increased significantly since 1997 (though the number of full-time equivalent places is not always clear). The government has also published a ten year childcare strategy.<sup>90</sup> This plan to develop a longer-term, more coherent strategy, and the significance given to (high quality, affordable) childcare as a new frontier of welfare state provision, was welcomed. A key element is a legal duty on local authorities to ensure sufficient childcare places, enshrined in the UK Childcare Bill (2005). Early education services will expand their hours from 12.5 to 20 hours/week (for 3 and 4 year olds). For primary school children (5-11 years), childcare 'wrapped around' the school day (8am-6pm) will be given by schools or private/voluntary partnerships all year round.

There has been some concern over the future of Sure Start, a programme for early childhood development and support for parents (used as a good practice example by the UK government). Sure Start programmes are popular with parents.<sup>91</sup> But early evaluation seemed to show some disadvantaged children doing worse in Sure Start areas.<sup>92</sup> (This seemed to be an artefact of the research method, which did not distinguish between users and non-users.) The government said Sure Start would change and expand to become 3500 Children's Centres, providing childcare, health, and family support and acting as a hub in communities. There should be one in 'every community' by 2010, allowing all families access at least to childcare information. It is unclear how many will be new, as existing services can be rebranded as Children's Centres if they offer multiple services. There has been concern that parental control may be lost, that childcare may take precedence over other services, and that as funding is transferred to local authorities it may be cut.

The childcare subsidy is also being updated. The maximum limit of eligible childcare costs will be increased from £135 to £200 for one child and £175 to £300 for two or more children and parents will be able to reclaim 80 per cent of costs up to the limit, rather than 70 per cent as previously. Quality will improve with new workforce training schemes, the raising of minimum standards and better regulation and inspection frameworks that will take account of the child well-being outcomes as set out in the

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<sup>89</sup> This has been argued in recent responses to government documents by the Women's Budget Group in particular; see [www.wbg.org.uk](http://www.wbg.org.uk) for details.

<sup>90</sup> HM Treasury, *Choice for Parents, the Best Start for Children: A Ten Year Strategy for Childcare*, The Stationery Office, 2004.

<sup>91</sup> National Evaluation of Sure Start, *Implementing Sure Start Local Programmes: An In-depth Study*, Department for Education and Skills, 2005.

<sup>92</sup> Department for Education and Skills, *Implementing Sure Start Local Programmes: An integrated overview of the first four years*, 2005.

*Every Child Matters* agenda. But there is some concern about the sustainability of childcare places and regional gaps in supply.<sup>93</sup> Some argue for more reliance on supply side support rather than demand side (via the childcare element of working tax credit). Provision is also growing more complex, with vouchers from employers now added. There is still some distance to travel before the UK's rather disparate, market-dominated childcare sector can be brought into line with the best in Europe.<sup>94</sup>

### *Respect Action Plan*

The government published a 'respect action plan', to tackle anti-social behaviour and the 'culture of disrespect'. The plan proposed a network of projects providing help and support for families; but those who do not improve or take responsibility for their children's behaviour could be subject to new powers, including a new house closure order. The government planned to consult on sanctions for households evicted for anti-social behaviour who refused help, including housing benefit measures.<sup>95</sup>

The plan talks of mutual respect between service providers and users. Others put more emphasis on respect for service users,<sup>96</sup> and messages from people living in poverty about feeling disrespected.<sup>97</sup> More could be done so that people on low incomes and in deprived areas are treated with respect by officials, politicians and the media.

### *European Funds*

The UK Annex in the 2006 Joint Report states that 'the European Social Fund [ESF] ... contributes significantly to combating poverty and social exclusion'.<sup>98</sup> We included an Annex on the ESF, written by Dan Finn, in our Sixth Report.<sup>99</sup> This described the ESF as focusing particularly on preventing and combating unemployment; promoting training and integrating those at risk of social exclusion into the labour market; promoting equal opportunities and the increased labour market participation of women. British ESF priorities were outlined in the Community Support Framework agreed with the European Commission in 1999.<sup>100</sup>

In the UK, much ESF funding goes to mainstream public/private sector training and employment bodies; but it also provides significant funding for community/voluntary sector organisations, including many from minority ethnic communities. This sector has used ESF funding to connect with 'hard-to-reach' groups and to develop innovations, such as Intermediate Labour Markets, taken up in mainstream

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<sup>93</sup> Public Accounts Select Committee, *Early Years: Progress in Developing High Quality Childcare and Early Education Accessible to All*, Thirty-fifth Report (Session 2003-04), HC 444, The Stationery Office, 2004.

<sup>94</sup> See, for example, *Babies and Bosses: Reconciling Work and Family Life*, Organisation for Economic Co-operation and Development, 2005.

<sup>95</sup> Respect Task Force, *Respect Action Plan*, Home Office, 2006.

<sup>96</sup> See Strategy Unit, *Strategic Audit: Progress and Challenges for the UK*, Cabinet Office, 2005, which notes the importance attached by service users to being treated with respect and dignity.

<sup>97</sup> Lister, R., *Poverty*, Polity Press, 2004.

<sup>98</sup> The UK NAP*inclusion 2003-05* has an annex which outlines the various components of the ESF in England, Wales, Scotland and Northern Ireland.

<sup>99</sup> Finn, D., 'The European Social Fund in the UK', Annex to J. Bradshaw and F. Bennett, *Sixth Report on United Kingdom National Action Plan on Social Inclusion 2003-2005: Implementation Report*, Group of non-government experts in the fight against poverty and social exclusion, Social Policy Research Unit, University of York, 2005. The paragraphs below are an amended version of sections of this Annex.

<sup>100</sup> See also [www.esf.gov.uk](http://www.esf.gov.uk) for monitoring and evaluation reports of ESF funding and projects etc.

programmes.<sup>101</sup> Compared with other EU countries, the UK community/voluntary sector has more access to European Funds and delivers more projects.<sup>102</sup>

A broad consensus holds that the ESF provides a valuable source of additional funding which has enabled organisations both to target socially excluded groups outside mainstream provision and to provide additional support to disadvantaged individuals.<sup>103</sup> There are, however, persistent concerns about the bureaucracy and administrative burden of ESF funding and also about 'co-financing' ESF funding in England, which some argue lessens the focus on social exclusion.<sup>104</sup> There is uncertainty about funding arrangements after 2006.

Funding under Objectives 1 and 2 is focused on areas facing particular problems. 'Equal' is for transnational projects testing new ways of combating discrimination and inequality in the labour market. Northern Ireland also has ESF funding for promoting peace and reconciliation. Objective 3, the largest component, is also available outside deprived areas. Recent research on Objective 3 has confirmed the value of support provided to multiply disadvantaged groups,<sup>105</sup> although having to allocate people to one such group only can be problematic.<sup>106</sup> Up to March 2005, the ESF had supported 1.7 million people, of whom nearly 1 in 5 were from ethnic minorities, over 1 in 10 were disabled and over 1 in 5 had no qualifications. Of the unemployed/inactive, just over a fifth gained employment on leaving, and more did so later; but the economically inactive are harder to help.<sup>107</sup> The Global Grants Programme means community groups can access small amounts of ESF funds.<sup>108</sup> The 'added value' in Objective 3 includes extending coverage to target groups, supporting innovation and complementing mainstream provision.<sup>109</sup> But some companies find it hard to both address the competitiveness agenda and support low-skilled workers.<sup>110</sup> And there is little information about quality of jobs obtained, or rigorous evaluations to establish ESF 'value added'. But many ESF providers say that the traditional focus on job outcomes does not take full account of the positive contribution their activities make for disadvantaged people. This is particularly important for the NAP inclusion given the focus on those further away from the labour market.

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<sup>101</sup> Finn, D. and Simmonds, D., *Intermediate Labour Markets in Britain and an International Review of Transitional Employment Programmes*, Department for Work and Pensions, 2003.

<sup>102</sup> House of Commons Work and Pensions Committee, *European Social Fund*, Sixth Report, Session 2002-03, HC 680, Volume I, The Stationery Office, 2004.

<sup>103</sup> See, for example, the mid-term evaluation of the Community Support Framework, which concluded that overall ESF was 'performing well', though there were some weaknesses to address for the future.

<sup>104</sup> CEFET, 'Co-financing under renewed scrutiny', *CEFET Newsletter*, January 2004.

<sup>105</sup> Hirst, A. *et al.*, *Research into Multiply Disadvantaged Groups in European Social Fund Objective 3 in England*, Department for Work and Pensions Research Report 286, CDS, 2005.

<sup>106</sup> Johnson, S., Bickerstaffe, T., Darlow, A., Munro, S. and Nunn, A., *Update to the Mid-Term Evaluation of the Community Support Framework for England/Gibraltar, Scotland and Wales*, Department for Work and Pensions Research Report 321, CDS, 2006.

<sup>107</sup> Smith, Y., Hardcastle, R., Moroney, M. and Redden, S., *Update to the Mid-Term Evaluation of the Objective 3 Operational Programme for England and Gibraltar*, Department for Work and Pensions Research Report 322, CDS, 2006.

<sup>108</sup> Jones, G., Mitchell, A. and Griffiths, R., *Evaluation of the European Social Fund Objective 3 Global Grants Programme*, Department for Work and Pensions Research Report 287, CDS, 2005. (Global Grants are one of the three mechanisms of ESF funding, alongside direct bidding and co-financing.)

<sup>109</sup> Lloyd, R., Eccles, J., Puchwein, I., Gilfillan, C. and Mackie, L., *European Social Fund Objective 3 Case Study Research*, Department for Work and Pensions Research Report 306, CDS, 2005.

<sup>110</sup> Fraser, A. and Hearn, D., *Evaluation of the European Social Fund Objective 3 Support for Companies*, Department for Work and Pensions Research Report 303, CDS, 2005.

Enlargement will result in redistribution of EU resources. The UK is to receive some £9.4 billion (in 2004 prices) in Structural Fund receipts in 2007-2013.<sup>111</sup> It has begun consultation on a review of the areas qualifying for 'assisted area status' and on priorities for EU Structural Funds spending to promote regional development and employment. But its consultation document made no explicit reference to the social inclusion agenda. A think tank argued that the declining amount of EU regional funding should be spent primarily on northern cities.<sup>112</sup>

### *Problem areas*

The Implementation Report acknowledged that in some areas progress is not as fast as it should be (e.g. the numbers of unemployed women on low income are rising). The trend in NEET (16-18 year olds not in education, employment or training) has worsened, from 9% in 2003 to 10% at the end of 2004 in England.<sup>113</sup> The government must hope the impact of means-tested educational maintenance allowances for young people – which evaluations show is promising - will begin to counteract this soon.<sup>114</sup>

There have also been problems with new tax credits, despite their advantages. Since they form a key element of the anti-poverty strategy, their performance is important. There appears to have been a combination of initial administrative teething problems with the introduction of NTCs in 2003/04 and the under- and over-payments inherent in a scheme which attempts to adjust amounts over the year in relation to total annual income.<sup>115</sup> The Parliamentary Ombudsman's report made 12 recommendations for improvements, including considering writing off overpayments caused by official error.<sup>116</sup> The transfer to child tax credit of most out of work families with children has also had to be postponed.<sup>117</sup> Changes were announced designed to provide greater certainty, especially for those who have a rise in income, with the income 'disregard' rising from £2500 to £25000. But time limits for reporting changes are tightened.<sup>118</sup> The government is apparently engaged in a review of benefits with a view to achieving greater simplification; so it is important that the right lessons are drawn from these developments. In particular, participatory research should be carried out, to better understand the perspectives and priorities of claimants of benefits/tax credits.

The government published an integration strategy for refugees.<sup>119</sup> But it also decided to remove welfare support from asylum seekers and their families who lose their appeal to remain in the UK. One author has drawn attention to the inherent contradiction between a focus on tackling social exclusion and

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<sup>111</sup> House of Commons *Hansard*, Written Ministerial Statement, 20 December 2005, cols. 203-206WS, The Stationery Office.

<sup>112</sup> Marshall, A. and Adams, J., *Last Orders! What the new EU budget means for Britain's cities*, Institute for Public Policy Research, 2006.

<sup>113</sup> Statistical First Release 27/2005, *Participation in Education, Training and Employment by 16-18 Year Olds in England: 2003 and 2004*, Department for Education and Science, 2005.

<sup>114</sup> Maguire, S. and Rennison, J., 'Two years on: the destinations of young people who are not in education, employment or training at 16', *Journal of Youth Studies*, vol. 8, no. 2, June 2005.

<sup>115</sup> See, for example, Graham, J. et al., *The Role of Work in Low Income Families with Children: A Longitudinal Qualitative Study*, Department for Work and Pensions Research Report 245, CDS, 2005.

<sup>116</sup> Parliamentary Ombudsman, *Tax Credits: Putting Things Right*, HC 124, Session 2005-06, The Stationery Office, 2005.

<sup>117</sup> *Hansard*, Written Ministerial Statement 21 October, col 39WS, The Stationery Office, 2004.

<sup>118</sup> HM Treasury, *PreBudget Report 2005*, Cm 6701, The Stationery Office, 2005.

<sup>119</sup> Home Office, *Integration Matters: A National Strategy for Refugee Integration*, 2005; Department for Work and Pensions, *Working to Rebuild Lives: A Refugee Employment Strategy*, 2005.



policies which may create or exacerbate it.<sup>120</sup> And an evaluation report on the Children's Fund (schemes to help children in disadvantaged areas) concluded that more should be done to deal with excluding factors, alongside building the resilience of children and families.<sup>121</sup>

#### 1.4 Preparation of the NAP/inclusion and mobilisation and involvement of actors

This is critical, as it links the promotion of inclusion to an inclusive process, especially with the involvement of people with experience of poverty and their organisations. The 2003-05 NAP had a different tone and content as a result of this, compared to *Opportunity for All*. The different tone arises from the value placed on the 'exciting' process of engagement. The different content arises from a reflection of (some of) their priorities (eg the cost of school).<sup>122</sup>

Participation in shaping the forthcoming 2006-08 NAP/inclusion has been facilitated by a toolkit, *Get Heard*, developed by the Participation Working Group of people with experience of poverty, members of NGOs and civil servants.<sup>123</sup> The joint application for EU funding between the NGOs involved and the Department for Work and Pensions was a first. The toolkit was used in numerous discussion meetings with people with experience of poverty around the UK, and resulted in a coherent collection of messages to the government, produced in spring 2006.<sup>124</sup> We will be drawing on this when we compare it with the 2006-08 NAP/inclusion. The government has also organised a more systematic series of stakeholder meetings and other more specific discussions (such as one on working poverty) in the run-up to the 2006-08 NAP/inclusion, which further relationships and increase mutual understanding.

The NAP/inclusion has acted as a catalyst in bringing together the four nations of the UK to discuss approaches to poverty and social exclusion – at governmental level and in terms of the main NGOs involved. Central government identified a more important role in the NAP/inclusion for the Government Offices of the English regions in future; but they have not so far featured prominently. There has been constructive involvement of local government at national level. Local authorities are also involved in the Social Inclusion Network, a transnational exchange project; but its outcomes are not yet clear. The 2005 Joint Report Annex notes imbalances in poverty and social exclusion regionally and locally in the UK, so their involvement is key.

The UK government is not aligning the NAP/inclusion with its regular processes of resource allocation. Nor is it integrated with the progress towards more decentralisation<sup>125</sup> or democratic renewal. This may have helped to allow experimentation. But the public's level of awareness of the NAP/inclusion is low. Few civil servants work on the NAP/inclusion, and the organisations promoting participation have very constrained levels of human and financial resources.

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<sup>120</sup> Burchardt, T., 'Selective inclusion: asylum seekers and other marginalised groups', in J. Hills and K. Stewart (eds.), *A More Equal Society? New Labour, Poverty, Inequality and Exclusion*, The Policy Press, 2005, pp. 209-228.

<sup>121</sup> University of Birmingham and Institute of Education, *Working to Prevent the Social Exclusion of Children and Young People: Final lessons from the national evaluation of the Children's Fund*, Research Report 734, Department for Education and Skills, 2006.

<sup>122</sup> See, for example, Brunwin, T. *et al.*, *The Cost of Schooling*, Research Report 588, Department for Education and Skills, 2004.

<sup>123</sup> See <http://www.ukcap.org/getheard/downloads.htm>

<sup>124</sup> Submission to Department for Work and Pensions. *Get Heard! People living in poverty contribute to the National Action Plan on Social Inclusion 2006-08*, 2006.

<sup>125</sup> See, for example, Civil Renewal Unit, *Together We Can*, Home Office, 2005.

Lastly, there is little involvement of the traditional social partners. Trades unions have so far not been conspicuous in the NAP/inclusion, despite their relevance to key issues such as in-work poverty. Even less visible are employers, businesses and the private sector. Yet the abandonment of some areas by private businesses is key to the exclusion of their residents, and food companies can be seen as adding to the risks of obesity amongst children.<sup>126</sup> The NAP/inclusion could be a vehicle for exploring the responsibilities of other players in tackling poverty and social exclusion.

### *Mainstreaming*

We argued in previous reports that a coherent approach could be seen in some policy areas, but not all. One area where, despite a Social Exclusion Unit report, we did not see much 'joined-up thinking' was transport. But a recent report for the Department for Transport identified ways social inclusion might be better integrated into its thinking.<sup>127</sup> And the Social Inclusion Network (see above) is experimenting with mainstreaming social inclusion at local level.

The Social Exclusion Unit has now been asked to take a more strategic approach, looking across all policies and programmes for the most disadvantaged. A Cabinet level ministerial post was created in the recent reshuffle. Prof Ruth Lister has also suggested that the creation of the Commission on Equality and Human Rights provides a good opportunity to officially recognise poverty as a denial of human rights, and therefore give the Commission an overview of anti-poverty policy.

## **1.5 Looking forward**

The Strategy Unit has suggested that a major challenge in the UK lies in 'addressing poverty and social exclusion, but with increasing focus on early development and on "hard-to-reach" groups' (p. 113).<sup>128</sup> It emphasised getting the economically inactive back to work, and improving opportunities for the poorest households. And it did not underestimate the difficulties: 'Consolidation and further progress depend on addressing deep-rooted causes and drivers that will need prolonged and sustained effort to overcome' (p. 3). This section takes up some future challenges.

A recent report demonstrates the key role of access to justice and advice/legal services in tackling social exclusion.<sup>129</sup> Judges have said that the civil legal aid budget has been 'scraped to the bone' over the past decade, threatening access to justice for poor and vulnerable people.<sup>130</sup> The government published a strategy for helping vulnerable and excluded people to obtain advice to resolve problems and disputes,<sup>131</sup> and announced a task force to increase people's awareness and understanding of their legal rights and responsibilities.<sup>132</sup> But the potential of these initiatives is not yet clear.

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<sup>126</sup> See, for example, British Medical Association, *Preventing Childhood Obesity*, 2005, which argues against 'junk food' advertising and sponsorship.

<sup>127</sup> MacDonald, M. *et al.*, *Social Inclusion: Transport aspects*, Department for Transport, 2006.

<sup>128</sup> Strategy Unit, *Strategic Audit: Progress and Challenges for the UK*, Cabinet Office, 2005.

<sup>129</sup> Buck, A., Balmer, N. and Pleasence, P., 'Social exclusion and civil law: experience of civil justice problems among vulnerable groups', *Social Policy and Administration*, Vol. 39, no. 3, June 2005.

<sup>130</sup> Comments by the Judiciary on Civil and Family Legal Aid: Proposals for Procurement, Judicial Communications Office, 2006.

<sup>131</sup> Department for Constitutional Affairs, *Getting Earlier, Better Advice to Vulnerable People*, 2006.

<sup>132</sup> Department for Constitutional Affairs, press release, 13 December 2005.

There are some challenges looming larger in the future. The first is new technology. A Social Exclusion Unit report said the digital divide needs to be bridged (and electronic services delivered) in a way excluded people will use.<sup>133</sup> And a committee of MPs said that elderly people and those with disabilities need more help with the planned switch to digital television.<sup>134</sup> The second is increasing costs. Households in fuel poverty could increase by up to a third, as a result of price increases announced in 2004.<sup>135</sup> Increases in water charges will also impact on low-income households.<sup>136</sup>

In addition to its (firm) target on child poverty, and its (less firm) pledge on pensioner poverty, the government could put forward targets for reducing working age poverty, the poverty of the population as a whole, and overall inequality.<sup>137</sup> More broadly, at EU level the link between sustainable development and social inclusion is seen as increasingly relevant. In the UK, the Sustainable Development Commission has also made the link between sustainability and greater equality, and this could be explored more by the government.<sup>138</sup>

## CHAPTER 2: ACTIVE INCLUSION AND MINIMUM RESOURCES

### 2.1 Active inclusion

The 2006 Joint Report (Annex) said ‘work is seen as the primary route out of poverty and to strengthen social cohesion and many of the UK’s initiatives find their foundation in activation measures, facilitating access to the labour market, and providing financial incentives to work’. The government has a ‘work first’ approach to welfare reform,<sup>139</sup> in part because of its views about the negative effects of worklessness. It describes its strategy on participation in employment as ‘making work possible ... making work pay ... making work skilled’.<sup>140</sup> Its welfare to work programmes have made a modest contribution to the increase in employment.<sup>141</sup>

The latest estimate of the lone parent employment rate is 56 per cent – up on 45 per cent in 1997, but with a long way still to go to 70 per cent. Research on the extension of work focused interviews for lone parents shows no detectable change in exit rates from income support for new and repeat claimants, though there was a 2 percentage point increase in exit rates for ongoing claimants after a year.<sup>142</sup>

<sup>133</sup> Social Exclusion Unit, *Inclusion Through Innovation: Tackling social exclusion through new technologies*, Office of the Deputy Prime Minister, 2005.

<sup>134</sup> House of Commons Culture, Media and Sport Select Committee, *Analogue Switch-off: A signal change in television*, Second Report, Session 2005-06, HC 650, The Stationery Office, 2006.

<sup>135</sup> National Energy Action, press release, 25 January 2005.

<sup>136</sup> Department for Environment, Food and Rural Affairs, Cross-Government Review of Water Affordability Report, 2004; Water UK press release 3 December 2004, Water Voice press release, 2 December 2004; Environment, Food and Rural Affairs Select Committee, *Water Pricing: Follow-up*, Nineteenth Report (Session 2003-04), HC 1186, The Stationery Office, 2004.

<sup>137</sup> Hills, J. and Stewart, K. (eds.), *A More Equal Society? New Labour, Poverty, Inequality and Exclusion*, The Policy Press, 2005.

<sup>138</sup> Sustainable Development Commission, *On the Move: Review 2005-2006*, 2005.

<sup>139</sup> HM Treasury and Department for Work and Pensions, *The Changing Welfare State: Employment Opportunity for All*, 2001.

<sup>140</sup> Department for Work and Pensions, *Opportunity for All: Fourth Annual Report 2002*, Cm 5598, The Stationery Office, 2002, p. 22.

<sup>141</sup> In March 2005, Working Brief 162 estimated that unemployment would have been 33,600 higher if it were not for the New Deal programmes.

<sup>142</sup> Knight, G. and Lissenburgh, S., *Evaluation of the Extension to Lone Parent Work Focused Interviews Eligibility: Administrative Data Analyses*, Department for Work and Pensions Research Report 237, CDS, 2005.

Overall, the New Deal for Lone Parents (NDLP) is well received.<sup>143</sup> But it may have creamed off lone parents most ready and willing to work, and getting others into work may prove much harder. Already, a smaller proportion of those attending (mandatory) work focussed interviews agree to attend an initial (voluntary) NDLP interview. A study of work focused interviews found that the main barrier to work was childcare, but interrupted education, health/disability problems and caring responsibilities could also be problems.<sup>144</sup> Lone parents are aware of sanctions, and understand the principles.<sup>145</sup> A lobby group for lone parents argues that to attach stricter work requirements to benefit for lone parents is not a good way to achieve the 70 per cent target.<sup>146</sup> But in the Welfare Reform Green Paper (see above), the government again proposes to increase conditionality on lone parents, especially those with secondary school aged children.

Another key issue is job exit rates. If lone parents had the same rate as the rest of the population, the 70 per cent target could be met without greatly raising job entry rates.<sup>147</sup> This suggests a link with other policy agendas such as work quality, training and skills, and childcare. (See Employment Retention and Advancement, below.)

The employment rate of disabled people has been increasing slowly, although McKnight (2005) argues that the New Deal for Disabled People (NDDP) has not been a great success.<sup>148</sup> Again, there may have been a creaming process; one study noted that the current funding structure creates a risk of focusing on more job-ready people.<sup>149</sup> A review of policy initiatives promoting the employment of people with a disability or chronic illness concluded that it was hard to show if improvements were due to the welfare to work interventions or external factors.<sup>150</sup> The government has now announced that the NDDP will be extended to the end of March 2007.<sup>151</sup> The Pathways to Work pilots for incapacity benefit claimants have proved successful, increasing the number of people moving off benefit within 6 months by 8 per cent compared with non pilot areas, with early signs that this was leading to a reduction in incapacity benefit caseloads;<sup>152</sup> but these are being rolled out slowly, with only a third of the country to be covered by October 2006.<sup>153</sup> And some claimants felt that their hopes had been raised and then dashed, as they had expected to find work quickly.<sup>154</sup>

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<sup>143</sup> See, for example, Holland, J., *Evaluation of the Extension to NDLP Eligibility*, W209, Department for Work and Pensions, 2004.

<sup>144</sup> Knight, G. and Thomas, A., *LPWFI and Review Meetings Administrative Data Analyses and Qualitative Evidence: Final report*, Department for Work and Pensions Research Report 315, CDS, 2006.

<sup>145</sup> Joyce, L. and Whiting, K., *Sanctions: Qualitative summary report on lone parent customers*, Working Paper 27, Department for Work and Pensions, 2006.

<sup>146</sup> One Parent Families, *Meeting the Target: How can the government achieve a 70 per cent employment rate for lone parents?*, 2005.

<sup>147</sup> Evans, M., Harkness, S. and Ortiz, R.A., *Lone Parents Cycling Between Work and Benefits*, Department for Work and Pensions Research Report 217, CDS, 2004.

<sup>148</sup> McKnight, A., 'Employment: tackling poverty through "work for those who can"', in J. Hills and K. Stewart (eds.), *A More Equal Society? New Labour, Poverty, Inequality and Exclusion*, The Policy Press, 2005, pp. 23-46.

<sup>149</sup> Lewis, J. *Et al.*, *New Deal for Disabled People: An In-depth Study of Job Broker Service Delivery*, Department for Work and Pensions Research Report 246, CDS, 2005.

<sup>150</sup> Bambra, C., Whitehead, M. and Hamilton, V., 'Does 'welfare-to-work' work? A systematic review of the effectiveness of the UK's welfare-to-work programmes for people with a disability or chronic illness', *Social Science and Medicine*, vol. 60, issue 9, May 2005.

<sup>151</sup> House of Commons *Hansard*, Written Ministerial Statement 20 July 2005, col. 103WS, The Stationery Office.

<sup>152</sup> Blyth, B., *Incapacity Benefit Reforms: Pathways to Work pilots performance and analysis*, Working Paper 26, Department for Work and Pensions, 2006.

<sup>153</sup> House of Commons *Hansard*, Written Ministerial Statement 25 January, cols. 12-14WS, The Stationery Office, 2005.

<sup>154</sup> Barnes, H. and Hudson, M., *Pathways to Work: Extension to some existing customers – Early findings from qualitative research*, Department for Work and Pensions Research Report 323, CDS, 2006.

An audit report said that the government provided an effective range of support that helped thousands of disabled people find employment each year. But more needed to be done to increase the numbers assisted into work, and to help disabled people already in the workplace retain their jobs.<sup>155</sup> This is backed up by a report from the Adult Learning Inspectorate, which said that inadequate training and support were preventing people with disabilities achieving their potential in the workplace.<sup>156</sup> There is a need to tackle barriers faced by disabled people in the workplace, not only in access to jobs.<sup>157</sup> The government has increasingly focused on job retention and rehabilitation. Disappointingly, however, two reports evaluating a pilot giving additional help to those off work due to ill-health to return to and retain their job found that this had no significant impact across key return-to-work measures.<sup>158</sup>

Disabled people facing the most complex barriers to finding and keeping a job can be helped by supported employment. Workstep has been found to provide support to many people unlikely to find and sustain employment in other ways.<sup>159</sup> Another group likely to be furthest from the labour market are ex-offenders. A Social Exclusion Unit report<sup>160</sup> found that two-thirds of prisoners lost their job on going to prison, and being in work reduces the risk of reoffending by between a third and a half. A recent review examined empirical evidence about interventions promoting employment for offenders;<sup>161</sup> and the E2E pilot scheme for young offender results in almost half of them securing an appropriate learning or work situation.<sup>162</sup> This is becoming an increasingly important issue as prisoners' numbers increase. But a think-tank report suggested that a scheme for another vulnerable group, the New Deal 50-Plus for the over 50s, was not delivering.<sup>163</sup>

The government is aware that some areas suffer from concentrated worklessness (see chapter 1). The 2005 Joint Report Annex sees 'concentrations of low income' as a challenge in the UK. Initiatives to address this include Employment Zones, Action Teams for Jobs, and Working Neighbourhoods pilots. An evaluation of these pilots suggest some successes, with nearly a third of those involved moving into work; but there was little evidence of much help for those with deep-seated barriers to work.<sup>164</sup> Similar schemes in Scotland showed some initial success.<sup>165</sup> Evaluation of the extension of Employment Zones to a wider client group showed that a flexible approach from personal advisers works well.<sup>166</sup>

<sup>155</sup> National Audit Office, *Gaining and Retaining a Job: The Department for Work and Pensions support for disabled people*, HC 455, Session 2005-06, The Stationery Office, 2005.

<sup>156</sup> Adult Learning Inspectorate, *Greater Expectations: Provision for learners with disabilities*, 2006.

<sup>157</sup> Rigg, J., *Labour Market Disadvantage Amongst Disabled People: A longitudinal perspective*, CASE Paper 103, Centre for Analysis of Social Exclusion, London School of Economics, 2005.

<sup>158</sup> Farrell, C., Nice, K., Lewis, J. and Sainsbury, R., *Experiences of the Job Retention and Rehabilitation Pilot*, Department for Work and Pensions Research Report 339, CDS, 2006; Farrell, C., Nice, K., Lewis, J. and Sainsbury, R., *Impacts of the Job Retention and Rehabilitation Pilot*, Department for Work and Pensions Research Report 342, CDS, 2006.

<sup>159</sup> Purvis, A., Lowrey, J. and Dobbs, L., *Workstep Evaluation Case Studies: Exploring the design, delivery and performance of the Workstep Programme*, Department for Work and Pensions Research Report 348, CDS, 2006.

<sup>160</sup> Social Exclusion Unit, *Reducing Reoffending by Ex-prisoners*, 2002.

<sup>161</sup> Hurry, J., Brazier, L., Parker, M. and Wilson, A., *Rapid Evidence Assessment of Interventions that Promote Employment for Offenders*, Research Report 747, Department for Education and Skills, 2006.

<sup>162</sup> Foster, J., *Asking Further Questions of the Learning Alliance Entry to Employment Pilot*, Youth Justice Board for England and Wales, Home Office, 2006.

<sup>163</sup> Adams, J., *Towards Full Employment: Tackling economic inactivity*, Institute for Public Policy Research, 2005.

<sup>164</sup> Dewson, S., *Evaluation of the Working Neighbourhoods Pilot: Year one*, Department for Work and Pensions Research Report 297, CDS, 2005.

<sup>165</sup> Shiel, L., Clark, I. and Richards, F., *Employability Initiatives in the Better Neighbourhoods Services Fund*, Scottish Executive, 2006.

<sup>166</sup> Griffiths, R., Durkin, S. and Mitchell, A., *Evaluation of the Single Provider Employment Zone Extension*, Department for Work and Pensions Research Report 312, CDS, 2006.

Action Teams for Jobs helped over 150,000 people in deprived areas into jobs from June 2000 to September 2005.<sup>167</sup>

The government's success in reducing unemployment paradoxically means that a larger proportion of clients face acute and/or multiple problems. There has been more focus on those with multiple needs in relation to the job market recently. In general, commentators emphasise the need for multi-dimensional support, which may be wider than a 'work first' approach suggests.<sup>168</sup> This is where the European Social Fund (ESF) comes into its own, through Objective 3 (see above), which is available in many areas of the UK, as well as through those parts of the ESF focused on disadvantaged areas (Objectives 1 and 2) Research also shows that the ways in which partnerships involved in EQUAL have addressed empowerment and equal opportunities principles has strengthened.<sup>169</sup>

Advice services may often be crucial in helping disadvantaged groups make the transition to work.<sup>170</sup> The Social Exclusion Unit has drawn attention to the complex needs faced by some young people in making the transition to adulthood.<sup>171</sup> The government announced a review of the policies needed to improve mental health outcomes and employment.<sup>172</sup> (Indeed, one academic and former government advisor suggested that mental illness has taken over from unemployment as the greatest social problem.)<sup>173</sup> However, research for the Equalities Review shows that almost all forms of disadvantage (amongst women, ethnic minorities, disabled people and older people) has been in decline over the past decade.<sup>174</sup>

A study of Ambition, which helps disadvantaged jobseekers find work in areas not usually accessible to them, whilst simultaneously trying to address employers' needs, was generally positive.<sup>175</sup> An evaluation of the Ethnic Minority Outreach initiative, which supports jobless people from ethnic minorities, showed a major impact in increasing ethnic minorities' awareness of employment and training opportunities, but those with multiple problems remaining at a disadvantage.<sup>176</sup> And the government admits that 577,020 people have started on a New Deal scheme more than once.<sup>177</sup>

McKnight (2005)<sup>178</sup> lists the employment policy challenges for the future:

- increasing inactivity rates and falling jobless rates among working age men
- 16- and 17-year-olds have largely been ignored, and young people entering the labour market (likely to be disadvantaged) have high and rising unemployment

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<sup>167</sup> Casebourne, J., Davis, S. and Page, R., *Review of Action Teams for Jobs*, Department for Work and Pensions Research Report 328, CDS, 2006.

<sup>168</sup> See, for example, Lownsbrough, H., *Include Me In: How Life Skills Help Homeless People Back into Work*, Demos, 2005.

<sup>169</sup> GHK Consulting and the Gilfillan Partnership, *Update to the Mid-Term Evaluation of the UK-GB EQUAL Community Initiative 2000/06*, Department for Work and Pensions Research Report 311, CDS, 2006.

<sup>170</sup> Gillespie, M., Mulvey, G. and Scott, G., *Transitions to Employment: Advising disadvantaged groups*, Scottish Executive, 2005.

<sup>171</sup> Social Exclusion Unit, *Transitions: Young adults with complex needs*, Office of the Deputy Prime Minister, 2005.

<sup>172</sup> HM Treasury, *Budget 2006*, The Stationery Office, 2006.

<sup>173</sup> Layard, R., 'The case for psychological treatment centres', *British Medical Journal*, 29 April 2006.

<sup>174</sup> Berthoud, R. and Blekesaune, M., *Persistent Employment Disadvantage, 1974 to 2003*, Working Paper 2006-9, Institute for Social and Economic Research, University of Essex, 2006.

<sup>175</sup> GHK Consulting, *Ambition: Identifying Best Practice for Demand-led Approaches*, Department for Work and Pensions Research Report 264, CDS, 2005.

<sup>176</sup> Barnes, H. et al., *Ethnic Minority Outreach: An Evaluation*, Department for Work and Pensions Research Report 229, CDS, 2005.

<sup>177</sup> House of Commons *Hansard*, Written Answers 21 July 2005, cols. 2020W-2021W.

<sup>178</sup> McKnight, A. 'Employment: tackling poverty through "work for those who can"', in *A More Equal Society? New Labour, Poverty, Inequality and Exclusion*, Policy Press, 2005, pp. 23-46.

- the New Deal programmes have been a success; but unemployment rates for 18- to 24-year-olds are stagnant, and 1 in 4 unemployed 25- to 49-year-olds have been unemployed for a year or more, suggesting new policies are needed
- lone parents have benefited from their New Deal and increased financial support in work; but it looks unlikely that 70 per cent will be in work by 2010, so new initiatives or a more modest target may be appropriate for them.

In addition, there is concern that cuts in civil service numbers will lead to the New Deal becoming less effective. Similar concerns arise from evaluation of pilots which suggests that frequent face-to-face contact is important in helping people taking part in a new scheme in the first 13 weeks of claiming jobseeker's allowance.<sup>179</sup>

The government's recent Green Paper on Welfare Reform<sup>180</sup> is described in Chapter 1. Consultation is currently taking place, so there is no certainty about the final proposals. But the overall emphasis is firmly pro-work, confirming the existing mix of carrots and sticks to persuade those further from the labour market to consider employment. The 'sticks' already include an increased emphasis on benefit sanctions for those who do not fulfil the (increasingly stringent) conditions of entitlement without a good reason. For example, a pilot scheme was launched in April, aimed at people aged 25 and over unemployed and on benefit for six months, providing an intensive work-focused short course as a 'mandatory activity programme'.<sup>181</sup> And personal advisers have sent some claimants on mandatory training pilots since 2004.<sup>182</sup> To work properly, it can be argued, conditionality depends on awareness of the rules. But a recent report revealed a lack of clarity amongst claimants about both the sanctions regime and the conditions of jobseeker's allowance.<sup>183</sup> 'Carrots' include StepUP, a pilot giving a guaranteed (subsidised) job for 50 weeks to some claimants staying unemployed, with support for jobsearch etc. Whilst StepUP doubles job entry chances for participants compared to non-participants, there is no statistically significant increase in job entry compared to equivalent Jobcentre Plus customers.<sup>184</sup>

The proposed reform of incapacity benefits, as noted above, introduces the idea of a two-tier benefit, with a higher rate for those prepared to take steps to find work.<sup>185</sup> The Implementation Report describes Jobcentre Plus as ensuring that working age people claiming benefits should 'consider work as an option before proceeding with their claims' (para. 2.34). This echoes the 'diversion' policies of some US states. But such policies may be limited in scope, and not always appropriate. Although a summary of evaluation evidence on Jobcentre Plus found most customers satisfied or very satisfied, there remained problems in delivering a work focus to people with health conditions/disabilities, and

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<sup>179</sup> Eccles, J. and Lloyd, R., *The Qualitative Evaluation of the JSA Intervention Regime Pilots*, Department for Work and Pensions Research Report 300, CDS, 2005.

<sup>180</sup> Department for Work and Pensions, Green Paper, *A New Deal for Welfare: Empowering people to work*, Cm 6730, The Stationery Office, 2006.

<sup>181</sup> Department for Work and Pensions, press release, 3 April 2006.

<sup>182</sup> Joyce, L., Durham, J., Williams, M. and White, C., *Evaluation of Basic Skills Mandatory Training Pilot and National Enhancements: Interim report*, Department for Work and Pensions Research Report 307, CDS, 2005.

<sup>183</sup> Peters, M. and Joyce, L., *A Review of the Sanctions Regime: Summary research findings*, Department for Work and Pensions Research Report 313, CDS, 2006.

<sup>184</sup> Bivand, P., Brooke, B., Jenkins, S. and Simmonds, D., *Evaluation of the StepUP Pilot: Final report*, Department for Work and Pensions Research Report 337, CDS, 2006.

<sup>185</sup> Department for Work and Pensions, *Five Year Strategy: Opportunity and Security Throughout Life*, Cm 6447, The Stationery Office, 2005. (In practice, there would be three tiers of benefit, as there would be a different rate for those deemed to be incapable in the longer term of returning to work.)

carers.<sup>186</sup> And the requirement on carers to attend work focused interviews was dropped, because of the difficulties it created.<sup>187</sup>

In the 1998 Green Paper on welfare reform, the slogan was ‘work for those who can, security for those who cannot’. The spread of ‘those who can [work]’ has increased considerably since 1998, with the focus moving from unemployment to wider worklessness. The latest initiatives have introduced (mandatory) work focused interviews for the partners of certain benefit claimants, as well as access to the (voluntary) New Deal for Partners, which has recently been enhanced.<sup>188</sup> The government is also starting to think about those who can only work part time. It recently commissioned a study examining part-time work/part-time workers, and a ‘thinkpiece’ about ways the social security system could increase part-time work options.<sup>189</sup>

The government’s emphasis is firmly on supply side policies. But one recent report argued that reliance on such measures would not be enough to move people off incapacity benefits into work, which would also require regional policies to deliver more jobs in the areas where incapacity benefits claimants are concentrated.<sup>190</sup>

#### *Quality of work*

The minimum wage has improved conditions for many low-paid workers. From 1998-2003, the hourly earnings of the lowest paid grew faster than the median.<sup>191</sup> But the Annex to the 2006 Joint Report said: ‘some concerns remain regarding the quality and sustainability of work and the risk of in-work poverty ...’. A review argued that many people who go into work end up in insecure, low-paid employment, with little change or progression; they need measures to improve their job quality, prospects and incentives.<sup>192</sup> Another analysis of routes out of poverty agreed that work was not a guaranteed way out.<sup>193</sup> As the welfare to work programme has matured, concern has moved on to retention and progression in work. There has also been greater use of temporary in-work support targeted at specific groups, in addition to new tax credits. And a demonstration project, the Employment Retention and Advancement Scheme, is experimenting with ways of supporting long-term unemployed people and lone parents following their entry to work. Early investigation is generally positive.<sup>194</sup>

Work quality was seen as one of the priority areas for workplace reforms for Labour’s third term,<sup>195</sup> and there have been calls for a new employment rights agency to enforce the rights of vulnerable workers.<sup>196</sup> There is particular concern about migrant workers, legal and illegal; one report said they are

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<sup>186</sup> Corkett, J. *Et al.*, *jobcentre Plus Evaluation : Summary of Evaluation Evidence*, Department for Work and Pensions Research Report 252, CDS, 2005.

<sup>187</sup> Carers UK press release, 13 June 2005.

<sup>188</sup> Thomas, A. and Griffiths, R., *Work Focused Interviews for Partners and Enhanced New Deal for Partners: Qualitative evidence, Phase one*, Department for Work and Pensions Research Report 283, CDS, 2005.

<sup>189</sup> Millar, J., Ridge, T. and Bennett, F., *Part-time Work and Social Security: Increasing the options?*, Department for Work and Pensions Research Report 351, CDS, 2006.

<sup>190</sup> Fothergill, S. and Grieve Smith, J., *Mobilising Britain’s Missing Workforce: Unemployment, incapacity benefit and the regions*, Catalyst, 2005.

<sup>191</sup> Butcher, T., ‘The hourly earnings distribution before and after the national minimum wage’, *Labour Market Trends*, Office for National Statistics, The Stationery Office, October 2005.

<sup>192</sup> Hirsch, D. and Millar, J., ‘Labour’s welfare reform: progress to date’, *Foundations 44*, Joseph Rowntree Foundation, 2004.

<sup>193</sup> Kemp, P., ‘Escape routes from poverty’, *Benefits*, 13:3, 2005.

<sup>194</sup> Hall, N. *et al.*, *The Employment Retention and Advancement Scheme: The early months of implementation*, Department for Work and Pensions Research Report 265, CDS, 2005.

<sup>195</sup> Hewitt, P., *Unfinished Business : The New Agenda for the Workplace*, Institute for Public Policy Research, 2005.

<sup>196</sup> Citizens Advice, *Somewhere to Turn: The Case for a Fair Employment Commission*, 2004.



subject to such levels of exploitation and control that they comprise ‘forced labour’.<sup>197</sup> The government has taken steps to protect both foreign labour (via legislation on gang masters) and employees generally (e.g. by extending protection against two-tier workforces on transfer of undertakings). And most recently it has published a strategy for employment relations, with an increased focus on vulnerable workers and those who abuse them.<sup>198</sup> But the OECD has voiced concern about skills provision in the UK.<sup>199</sup> And there can be a tension between employee protection and ‘flexibility’: the strategy for employment relations also stressed reducing compliance burdens on employers.

## 2.2 Minimum resources

The UK government argues that it effectively has a minimum income guarantee. This ‘guarantee’ differs for those in employment for 16 hours per week or more and those out of employment or working for less than 16 hours.

### *For those of working age in employment of 16 hours/week or more*

For this group, the ‘guarantee’ is what they can earn less tax and national insurance contributions. An effective floor to their net earnings is provided by the national minimum wage, which from October 2006 is £5.35 per hour.<sup>200</sup> Then, depending on their earnings and family circumstances, they may be entitled to child benefit, working tax credit, child tax credit, housing benefit and council tax benefit. If they have childcare costs, they may be entitled to the childcare element of working tax credit of up to 80 per cent of the costs of their childcare up to a maximum amount.<sup>201</sup>

### *For those of working age not in employment of 16 hours/week or more and pensioners*

For this group, the guarantee is made up of income support or pension credit plus their rent (or an amount towards their mortgage interest based on a standard interest rate) and their council tax. The level of income they receive depends on their family type. Generally people over pension age receive pension credit and families with children receive considerably more than the childless, especially if they are young.

There is a variety of tax/benefit models that can illustrate how this guarantee operates. In Chart 5 below we use the Tax Benefit Ready Reckoner produced by Professor Steve Wilcox. The illustrated case is a couple with two children working no hours and then one earner working up to 50 hours/week for the minimum wage, shown as £5/hour (it is actually £5.05/hour). Rent is £50/week and council tax is £20.50/week; so to get the after housing costs income, £70.50 per week needs to be deducted from these amounts. It is important to note three characteristics of this distribution:

1. There are very high marginal tax rates on extra earnings, in fact they are 70 per cent or higher across the whole of this distribution and do not fall to 33 per cent until this family has earnings of £500 per week.

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<sup>197</sup> Anderson, B. and Rogaly, B., *Forced Labour and Migration to the UK*, Trades Union Congress, 2005.

<sup>198</sup> Department of Trade and Industry, *Success at Work: Protecting vulnerable workers, supporting good employers*, DTI, 2006.

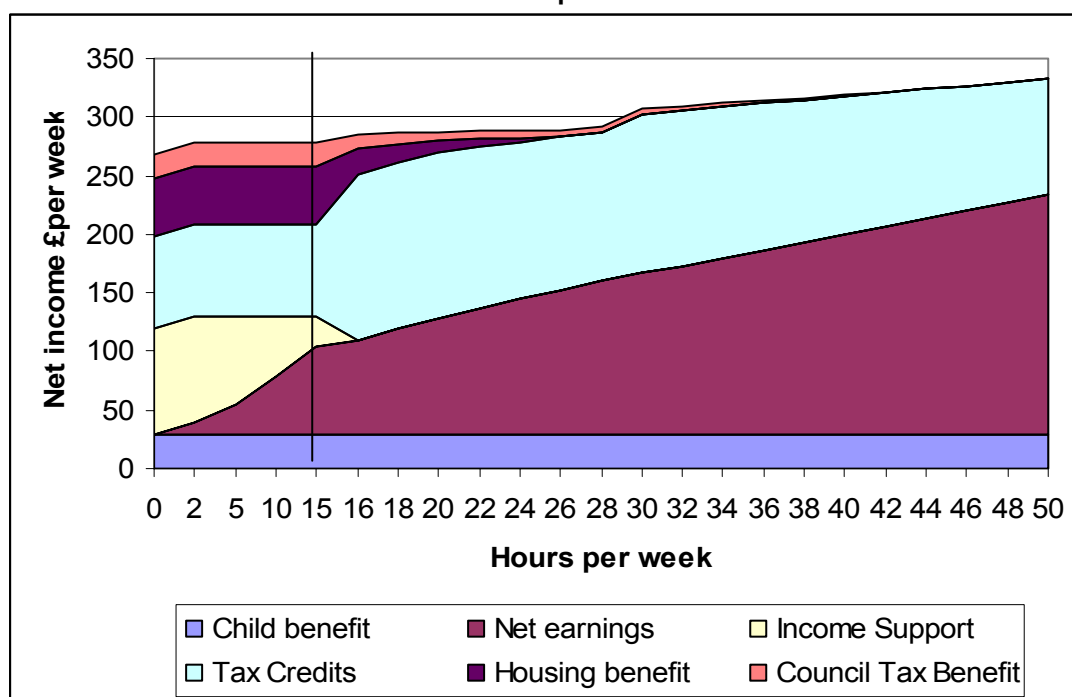
<sup>199</sup> OECD, *Economic Survey of the United Kingdom 2005*, OECD, 2005.

<sup>200</sup> As long as their employer is fulfilling his/her legal responsibilities; the Inland Revenue has imposed 133 penalty notices on employers who they found were not paying the minimum wage since April 1999 (House of Commons *Hansard*, Written Answers 23.2.05, col. 648W). Apprentices, people undergoing training and those workers eligible for the accommodation offset may legally be paid below the minimum wage.

<sup>201</sup> The maximum is the same for more than two children as it is for two children.

2. Replacement rates are 86 per cent when the earner's hours reach 16 at the minimum wage and at 40 hours at the minimum wage they are 76 per cent.
3. A substantial proportion of the net incomes of this family with one earner in full-time work is made up of cash benefits and tax credits. This family with an earner working for 40 hours on the minimum wage will receive 46 per cent of its net income in child benefit and tax credits.

**Chart 5: Tax benefit model table situation after April 2006**



Although these marginal tax rates and replacement rates seem high, compared with other countries, the UK has comparatively low replacement rates and comparatively high marginal tax rates.<sup>202</sup> This study also found that the overall poverty reduction effectiveness of the tax and cash benefits system was undermined by the fact that child tax benefits were taken into account as income in assessing housing benefit, and thus subsidies to housing costs were removed at lower income levels in the UK than in other countries.<sup>203</sup> Also childcare costs were comparatively high, even after the impact of (what was then) childcare tax credit. Social assistance scales were in general lower than those in countries with lower child poverty rates.

This analysis of child benefit packages has been replicated for 15 countries<sup>204</sup> as at January 2004. Charts 6 and 7 give the average league table obtained. The relative position of the UK depends on whether the comparison is made as a proportion of average earnings or in purchasing power parity (ppp) terms. While the UK child benefit package has improved since 2001 - and in ppp terms, the UK

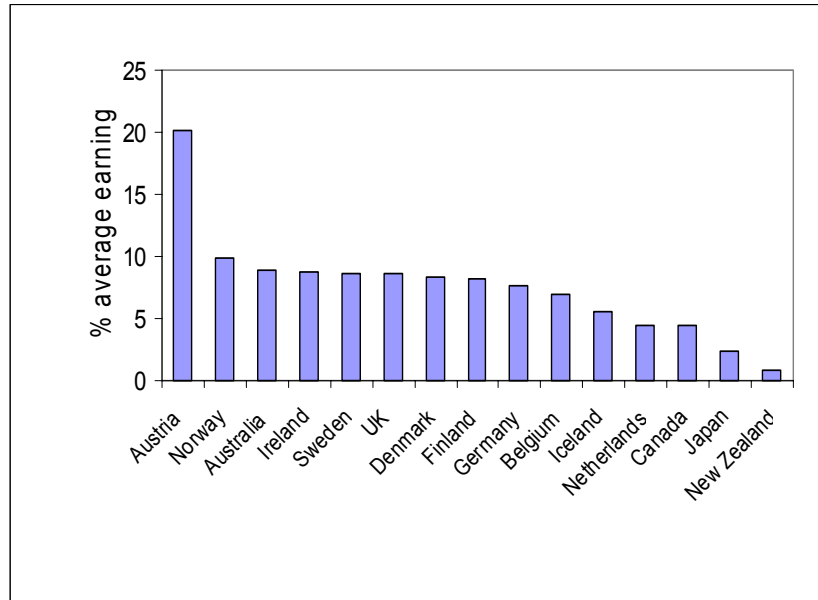
<sup>202</sup> Bradshaw, J., Finch, N. and Mayhew, E., 'Financial incentives and mothers' employment: a comparative perspective', in Saunders, P. (ed.), *Welfare to Work in Practice: Social security and participation in economic and social life*, International Studies in Social Security, Volume 10, Aldershot: Ashgate, 2005.

<sup>203</sup> Bradshaw, J. and Finch, N., 'Housing benefits in 22 countries', *Benefits*, 12: 2, pp. 87-94, 2004.

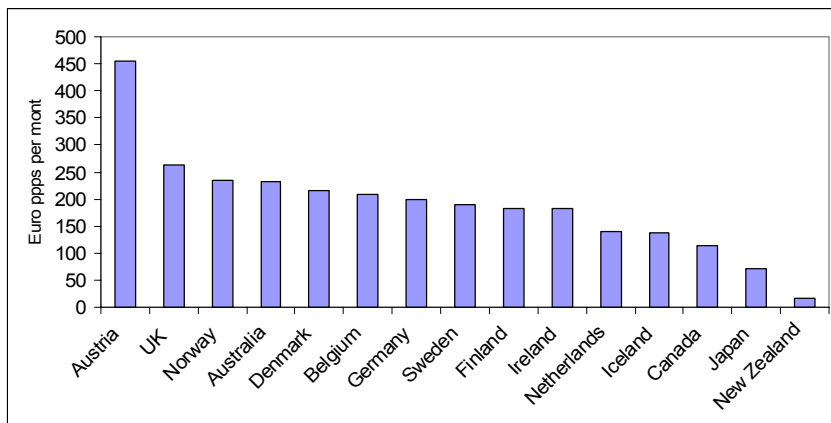
<sup>204</sup> Bradshaw, J., 'Child benefit packages in 15 countries', in J. Lewis (ed.) *Children, Changing Families and Welfare States*, Edward Elgar (forthcoming), 2006.

package comes second after Austria in this league table - housing costs, childcare costs and the low level of out of work benefits make our package less effective in reducing poverty.

**Chart 6: Overall 'average' child benefit package after taxes, benefits, childcare and housing costs (difference from childless couple), % average earnings, Jan 2004.**



**Chart 7: Overall 'average' child benefit package after taxes, benefits, childcare and housing costs (difference from childless couple) Euro ppps per month. January 2004.**



The relativities between cash benefits and tax credits and the system of uprating are unsustainable. At present:

- Pension credit moves with average earnings;
- The per child element of child tax credit moves with average earnings during this parliament;
- The per family element of child tax credit has been frozen in recent upratings
- The basic retirement pension and other non-means-tested benefits move with the Retail Prices Index (RPI); and
- Working tax credit and the adult rates of income support move with the RPI less housing costs ('the Rossi index').

There is no justification for this pattern. Differentials between different classes of claimant are already absurd – a single 59 year old is entitled to £56.20 per week on income support, but the day she reaches the age of 60 and claims pension credit she gets £109.45 per week instead. The differentials between different groups of claimants are based on no assessment of relative needs. And as earnings rise faster than the Rossi index each year, the gap will widen and will eventually become unsustainable. Parents now receive £43.88 per week per child while on income support (actually £59.98 for the first child when the family premium is included), with the per child element being uprated with earnings. Each partner in a couple gets £44.07 per week, uprated by the Rossi index. Some single women become pregnant on the single person's scale rates of income support. During their pregnancy, they may well receive free welfare foods. When they have the baby, they should get a lump sum (the Sure Start maternity payment), and they will receive £59.98 extra per week for the child, including a family premium.

It is difficult to believe that the differentials described have a well-grounded rationale. And for those without children of working age in particular, the 'poverty gap' (the difference between their benefit rates and the 'poverty line') looms particularly large: the childless couple receives an estimated 55.5 per cent of the 'poverty line' from April 2006, and the childless single person an estimated 48.4 per cent (according to calculations by the Child Poverty Action Group, 16 February 2006).

There is another, wider, concern. The government describes means-tested benefits out of work and tax credits in work as a 'guarantee'; and the UK's social assistance scheme is recognised as comprehensive. However, it could be argued that this is not in practice a 'guarantee' when take-up by those entitled is not complete; when (as noted by MPs recently), the benefits system is becoming increasingly complex;<sup>205</sup> or when some groups can only access it if they fulfil strict conditions. Take-up figures for the six main income-related benefits show £4200-£7335 million unclaimed in 2003-04, representing take-up by caseload of 70-77 per cent.<sup>206</sup> Take-up of child tax credit in its first year (2003-04) was 80 per cent (90 per cent for low-income families) (HM Treasury press release, 2.3.06). This is higher than previous schemes of in-work support; but it still means that 1 in 5 families eligible to claim is not receiving child tax credit. There is also anecdotal evidence that because of administrative problems and over-payments, some families may have decided not to claim child tax credit again. Take-up of working tax credit for the able-bodied childless was only 13 per cent. Take-up for means-tested benefits has never reached 100 per cent.

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<sup>205</sup> House of Commons Public Accounts Select Committee, *Tackling the Complexity of the Benefits System*, Thirty-Sixth Report, Session 2005-06, HC 765, The Stationery Office, 2006.

<sup>206</sup> Department for Work and Pensions, *Income Related Benefits Estimates of Take-up in 2003/2004*, 2006.

## Conclusion

The Communication from the Commission<sup>207</sup> about active inclusion emphasises adequate income support, empowerment and access to basic services, as well as labour market activation. In this chapter, we have focused on active inclusion via a link to the labour market and access to minimum resources. But Chapter 1 is also therefore relevant - especially in its analysis of UK government policies on benefit levels for different groups, the participation of people living in poverty and their organisations in policy debates, and service provision for disadvantaged groups.

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<sup>207</sup> European Commission, COM(2006)44 final, 'Concerning a consultation on action at EU level to promote the active inclusion of the people furthest from the labour market', 2006.