



# A new deal for welfare: Empowering people to work



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Presented to Parliament by  
the Secretary of State for Work and Pensions  
by Command of Her Majesty  
January 2006

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## Ministerial foreword

# Ministerial foreword



Since coming into office in 1997, we have embarked on a radical series of reforms to our welfare state. We began the New Deal, which has helped hundreds of thousands of people to get off benefits and back into work. We have invested heavily and created Jobcentre Plus, an integrated service for people who need help in finding employment. Through the National Minimum Wage and tax credits, we have acted to ensure that people will be better off in work than on benefits. This Government is the only one to ensure disabled people have the comprehensive civil rights they need. And only this Government has committed itself to reversing the inexcusable disadvantage faced by disabled people by delivering substantive equality within a generation.

Our approach has been based on the principle that the best welfare policy of all is work and throughout this process of reform we have sought to match rights with responsibilities. These reforms have made a huge difference. Britain now has the highest employment rate of any G8 country. Youth unemployment has virtually been eradicated. The number of people claiming incapacity benefits is falling after decades of rapid increases. There are now a million fewer people of working age on benefits. The progress we have been able to make has depended on a strong economy and a dynamic labour market. Both have been achieved and sustained since 1997, but there is more to do.

Our economy and society are changing fast. Our welfare state must help us respond to these changes. It must focus its energy on tackling poverty and social exclusion. Society has a responsibility to support those unable to support themselves. It should help support people in acquiring the new skills they need for the jobs of the future. It must help UK companies succeed in the new global economy. We set out here our proposals for how this could be done. It will require investment to provide more help and support for those who need it. It will involve a range of new providers, helping to mobilise local expertise in a new national effort to extend opportunity and prosperity to those who have been, in effect, excluded. We stand ready to make this investment in our people and our country.

The publication of *A new deal for welfare: Empowering people to work* marks the beginning of what must be a national debate on the future direction of our welfare reforms. I hope you will join that debate and help shape the future.

A handwritten signature in black ink, appearing to read 'John Hutton'.

Rt Hon John Hutton  
Secretary of State for Work and Pensions  
January 2006

# Executive summary



# Executive summary

## The case for reform

- 1 Ensuring citizens have the right to enter the world of work is a fundamental responsibility of any modern government. That has been the guiding principle of the Government's drive to create a modern, active welfare state since 1997.
- 2 We have made real progress. Some 2.3 million more people are now in work than in 1997. The UK's employment rate has risen to become the highest of the G8 countries. Jobcentre Plus and the New Deal in particular have helped move the welfare state away from a passive one-size-fits-all model, laying the foundations for an active, enabling system, where tailored support to help people back into work is matched by personal responsibility for people to help themselves. As a result, youth unemployment has fallen dramatically, down 90 per cent since 1997.
- 3 The Government has also significantly improved support and protection offered to all groups, for example through the National Childcare Strategy, the New Deal for Skills and the extension of disability rights.
- 4 But there is still more that needs to be done to break down the barriers that prevent many from fulfilling their potential, barriers that impede social mobility and, through worklessness and economic inactivity, consign people to poverty and disadvantage. We need to accelerate the move away from a welfare state fixed to the old model of dispensing benefits and move further in the direction of enabling people to achieve a better life. Ultimately, it is the social injustice inflicted by the poverty trap of benefit dependency that makes keeping the status quo indefensible.
- 5 The Government and external stakeholders must act to provide additional help and support so that people can fulfil their potential. But making this difference also requires a clear response from individual citizens themselves: they need to meet their responsibility to take the necessary steps to re-enter the labour market when they have a level of capacity and capability that makes this possible.
- 6 For individuals and families, the benefits of work are clear. Work is the best route out of poverty. It strengthens independence and dignity. It builds family aspirations, fosters greater social inclusion and can improve an individual's health and well-being. Furthermore, there is a clear link between benefits dependency and hardship. As many as half of the most severe pockets of deprivation in Britain are contained within the 100 parliamentary constituencies that

have the largest numbers of people claiming incapacity benefits.

- 7 Making a reality of employment opportunity for all is the only way Britain can meet the challenge of an ageing society. Growing numbers of retired people and a low birth rate mean that only by ensuring that everyone who can work is in work can we secure dignity and independence in retirement.
- 8 That is why we have set ourselves the aspiration of achieving an employment rate equivalent to 80 per cent of the working-age population. There are groups of people locked into long-term dependency on benefits who have been denied the opportunities that work can bring. In a modern, dynamic economy, we cannot afford to be denied the skills and contributions of those who have the potential to work.
- 9 To achieve our aim, we will:
  - reduce by 1 million the number on incapacity benefits;
  - help 300,000 lone parents into work; and
  - increase by 1 million the number of older workers.
- 10 We cannot achieve this without further reform. The success of the New Deal has been based on a clear framework of rights and responsibilities. We have been extending this to all claimants, building a system that recognises the responsibilities people have to get themselves off benefits, while ensuring that society fulfils its obligations to those unable to help themselves. Only

through an active, supportive welfare state can we achieve the progressive goal of employment opportunity for all.

## Incapacity benefits

- 11 The number of incapacity benefits claimants more than trebled between the late 1970s and the mid-1990s as employment in many traditional industries collapsed during two recessions. Many claimants saw this as the end of their working lives.
- 12 Over the last decade the characteristics of claimants have changed. No longer is it just those from the industrial heartlands. The South East has more claimants than the North East and there are at least 150,000 claimants in every region, making this a national problem. A third of new claimants cite mental health conditions as the primary cause of their incapacity – compared with one-fifth in the mid-1990s. Over a third of new claimants come not from work but from other benefits such as Jobseeker's Allowance and Income Support.
- 13 Although since the mid-1990s the number of people coming onto incapacity benefits has fallen by a third, the total number of claimants remains broadly the same because people stay on benefits longer. Although most people coming onto these benefits expect to get back to work, a very large number never do. After two years on incapacity benefits, a person is more likely to die or retire than to find a new job. It is not acceptable to write off millions of people in this way.

- 14 Since 1997 we have introduced significant innovations, such as the New Deal for Disabled People and Pathways to Work. The success of Pathways to Work has demonstrated that, with the right help and support, many people on incapacity benefits can move back into work, reinforcing our view that labelling people on benefit as 'incapable of work', is normally entirely inappropriate. However, fundamental problems remain:
- Little is done to prevent people moving onto incapacity benefits.
  - The gateway to benefits is poorly managed – with claimants receiving incapacity benefits before satisfying the main medical test.
  - Benefits trap people into a lifetime of dependency – the longer a person remains on benefits, the less chance they have of leaving.
  - There are perverse benefits incentives – paying more the longer people claim.
  - Almost nothing is expected of claimants – and little support is offered. Those who try to plan their return to work through volunteering and training perceive that they run the risk of proving themselves capable of work and therefore losing their entitlement.
  - The very name of incapacity benefits sends a signal that a person is incapable and that there is nothing that can be done to help get them back into the labour market.
- 15 The measures we propose – improvements to workplace health, reform of the gateway, increased support for claimants and removing the perverse incentives in the system, should, over time, significantly reduce the number of people claiming incapacity benefits. It is difficult to model the precise impact of these measures. If, however, the Government, employers, local authorities and health professionals come together to tackle this challenge, we should aspire to reduce the number of incapacity benefits claimants by 1 million over the course of a decade.
- 16 Our proposals will be underpinned by the new **Employment and Support Allowance** that will simplify the current system. From 2008, this new integrated contributory and income-related allowance will replace Incapacity Benefit and Income Support paid on the grounds of incapacity for new claimants. It will be paid to most people in return for undertaking work-related interviews, agreeing an action plan and, as resources allow, participating in some form of work-related activity. If benefit claimants do not fulfil these agreed responsibilities, the new benefit will be reduced in a series of slices, ultimately to the level of Jobseeker's Allowance. But for those claimants with the most severe health conditions or disabilities, the benefit will be paid without conditionality and they should get more money than they do now.

We will:

- reduce the number of people who leave the workplace due to illness;
- increase the number leaving benefits; and
- better address the needs of all those on the benefit, with additional payments to the most severely disabled people.

17 We will reduce the number of people moving onto this new benefit by:

- improving workplace health – by working in partnership with employers, employees, health professionals and insurers – and building on *Health, work and well-being – Caring for our future* published in October 2005, to develop a comprehensive package of measures that help to:
  - create healthy workplaces and improve access to good-quality occupational health support, thus minimising the likelihood of people developing health problems in the first place; and
  - facilitate better absence management and early intervention to help employees who do become ill to stay in work or, where this is not possible, support recovery and return to work at the earliest opportunity;
- improving the 'Gateway' by:
  - transforming the Personal Capability Assessment process so that it focuses on assessing people's capability for work rather than just their entitlement to benefits;
  - ensuring that no one is eligible for more than they would be on Jobseeker's Allowance until they have completed the Personal Capability Assessment process and have been found to be eligible for the new benefit;
  - reviewing the mental health component of the Personal Capability Assessment to ensure that it reflects the type of mental health conditions prevalent today; and
  - modernising the processes so that the system is more efficient and the number of appeals is minimised;
- supporting GPs and primary care teams in the key role they play in helping people back to work, including:
  - identifying specific interventions that improve outcomes and seeking to incorporate performance against these within primary care contracts, in order to reward primary care staff who take active steps to support individuals to remain in or return to work;
  - piloting employment advisers in GP surgeries;

- working jointly with the health departments, taking steps to support GPs and their teams in recording sickness certification as part of good medical practice; and
  - revising the format of the medical certificate to encourage the provision of more comprehensive and robust fitness for work advice (this will then provide tools for evaluation and audit of movement onto Statutory Sick Pay and incapacity benefits); and
  - reforming Statutory Sick Pay to simplify it and ensure that it helps people to stay in work.
- 18 To increase the number of people who leave benefits quickly to return to work, and to better address their needs, we will:
- increase support for claimants to return to work, replacing the old one-size-fits-all model, which writes people off as completely incapable of work, with a tailored, active system that addresses each individual's capacity;
  - build on the progress we have already made with the Pathways to Work pilots by extending provision across the country by 2008. Future Pathways to Work provision will be delivered primarily by the private and voluntary sector with payment by results; and
  - introduce, from 2008, the new Employment and Support Allowance, which is built on a clear framework of rights and responsibilities. New claimants, except those with the most severe disabilities and health conditions, will need to participate in work-focused interviews, produce action plans and engage in work-related activity, or see their benefit level reduced; and
- increase the level of support over time, in light of evidence, capacity and affordability. As support is increased, so will the level of conditionality for claimants.
- 19 Claimants will, as now, have a right of appeal at appropriate points in the decision-making process.
- 20 Getting people back into work has to be the start and not the end of the process. We must ensure support is not withdrawn once a claimant is back in work. Therefore we must provide ongoing support and training to help people reach their full potential.
- 21 It will never be reasonable to expect some people to plan for a return to work or to impose the responsibilities and conditionality associated with this on them. These people – who have the most severe health conditions and disabilities – will receive the new benefit without any conditionality, and at a higher rate, but will be eligible for help and support as and when they want it.
- 22 This group will differ from the current Personal Capability Assessment 'exempt' group in being based not on the specific condition an individual has but rather on the severity of the impact of that illness on their ability to function. For example, blind people are currently consigned to the exempt group, although most blind people are capable of, and indeed wish to,

undertake appropriate work, with appropriate support where necessary. Our proposals will correct this anomaly.

- 23 Existing claimants will remain on their existing benefits. However, many have potentially manageable conditions which may have changed or improved while they have been on benefits. We propose to work more proactively with this group of people, balancing their responsibilities to prepare for a return to work with the need to treat them fairly.
- 24 We will:
- protect the level of benefits of existing claimants but will encourage them, as in the Pathways to Work pilots now, to volunteer for the help available to return to work;
  - ensure that existing claimants are having regular Personal Capability Assessment re-assessments;
  - ensure that claimants each have a work-focused interview and develop a personal action plan over the next few years, so that they are clear about what help is available;
  - establish a unit to undertake periodic checks of those claiming benefits to confirm ongoing eligibility, seeking renewed medical evidence as appropriate;
  - pilot a new initiative that will provide a leadership role for cities in tackling worklessness; and
  - protect the level of benefits payment should people enter work and find that they need to return to benefits.

## Lone parents

- 25 The lone parent employment rate is at a record level of 56.6 per cent, and the number of lone parents on Income Support has fallen by 230,000 since 1997. However, the number of lone parents out of work and claiming Income Support remains high, both historically and compared with other countries. Lone parents are much less likely to participate in the labour market than partnered parents with children of the same age. This has a significant impact on the Government's child poverty targets, as most non-working lone parent families live in low-income households.
- 26 Parliament is now considering legislation to introduce a new duty on local authorities to secure a sufficient supply of childcare to meet working families' needs. Also, maternity support has increased so that, by 2007, the maximum Statutory Maternity Pay and child benefits for mothers at home with their first baby will have risen in real terms by £5,000 since 1997. The introduction of flexible working rights has helped lone parents balance their caring responsibilities with paid work.
- 27 Furthermore, there is substantial evidence that the New Deal for Lone Parents has greatly increased the employment prospects of lone parents who participate.
- 28 We therefore believe that the welfare system should do more to enable lone parents to work, but we believe that in return lone parents have a responsibility to make serious efforts to return to

work, especially once their youngest child goes to secondary school.

29 Our roll-out of compulsory work-focused interviews to lone parents who are claiming Income Support has shown that these interviews help them think about work and prepare for it by joining the New Deal for Lone Parents.

30 We propose to go further, as resources allow, and to:

- hold interviews every three months with lone parents whose youngest child is at least 11 years old;
- introduce six-monthly interviews (twice as frequent as now) for all lone parents who have been on benefit for at least a year and whose youngest child is under 11;
- pilot the provision of more intensive support for lone parents during the first year of their claim, because during this time many people are still adapting to their changed circumstances and therefore need more help;
- pilot a new premium so that lone parents are better off if they take serious steps towards preparing for work. Parents would be expected to work actively towards returning to the labour market. We are consulting on the most appropriate age of the youngest child for introducing this new incentive;
- work proactively with employers to develop work-taster programmes for lone parents;

- explore new ways of increasing the support that Jobcentre Plus can give to lone parents who are moving into work, or who are already in work; and
- ensure that lone parents know they can contact Jobcentre Plus for advice on the full range of support that is available to them, including help with housing costs, tax credits and childcare.

## Older people

31 By 2024, an estimated 50 per cent of the population will be over the age of 50, due to a combination of increased life expectancy and low birth rates. Despite people living longer than ever before, they are spending a smaller proportion of their lives in work than previous generations did. Unemployment for people over 50 is low but inactivity is high, and many people leave work early due to ill health. Those out of work tend to face greater barriers returning to work than people in other age groups do.

32 The overall effect is that employment rates for those aged 50 to State Pension age are lower than for the population as a whole. The consequences of this are far reaching, both for the economy in the light of an ageing population, and for the ability of individuals to make provision for later life.

33 Many people will continue working into their 60s. Indeed, around 1 million people already work beyond State Pension age, while many choose to withdraw from the labour market

earlier. But for those who want to, there remain structural, personal and cultural barriers to working longer. The culture of early retirement and discrimination against older people persists. Many people feel forced to leave work early, while others take ill-informed decisions about early retirement, with little thought for the financial consequences. We need to increase the average age of retirement by providing support for people to return to work more quickly and to stay in work for longer.

- 34 We have already made good progress and intend to build on this. Employment rates for older people have steadily improved and the gap between this and the overall rate has decreased. We are considering a variety of options in the light of the Pensions Commission report<sup>30</sup> and will set out our proposals for reform in the spring. More immediately, we wish to boost support for people returning to work and provide better information to people about the work and retirement options available to them. To do this we will:
- align our additional employment support for older long-term unemployed people with that for younger age groups by requiring people aged 50 to 59 to take up the additional jobseeking support available through New Deal 25 plus;
  - improve back-to-work support for Jobseeker's Allowance claimants and their dependent partners who are over 50;

- pilot face-to-face guidance sessions with people approaching 50 or over 50, to deliver tailored and relevant information on working, training and planning for retirement; and
- work with employers to extend flexible working opportunities to older workers.

## Delivering welfare reform

- 35 We need to reform not just the policy framework, but also the delivery of the welfare state. This is why we invested over £2 billion in bringing together the Benefits Agency and the Employment Service to create Jobcentre Plus. This integrated service helps unemployed and inactive people of working age move closer to the labour market and compete for work. The old, depressing offices with glass screens are being replaced by open-plan environments with personal advisers for all claimants. Already there is evidence that the integrated service is increasing the number of job entries.
- 36 At the same time, we have brought in private and voluntary sector providers. In Employment Zones, providers are paid not according to what they do, but according to what they achieve. By giving them greater freedom, they have improved performance – independent evaluation shows that they achieve significantly better job outcomes than Jobcentre Plus does with comparable clients.
- 37 Private and voluntary organisations also play a key role in delivering many programmes – notably New Deal for Disabled People. The Government is

committed to removing the barriers that these organisations face in order to establish a level playing field which enables them to provide a broader range of services than they do currently.

38 In this next stage of reform we will need to engage private and voluntary sector providers. We will invite bids for outcome-based contracts as we roll out Pathways to Work nationally.

39 Tackling the problems of cities is central to meeting the Government's aims of increasing prosperity and reducing poverty and social exclusion. Despite progress over the last eight years, there remain pockets of persistent low employment, low skills, poor health and weak overall economic performance. More needs to be done to address these reinforcing cycles of underperformance and deprivation.

40 Our long-term aspiration is for an employment rate equivalent to 80 per cent of the working-age population. Nationally, the number of people in work has risen by well over 2 million since 1997, with the biggest improvement in the areas that started in the poorest positions. But we believe the resources flowing into cities would have more impact if we could get local agencies working together more closely.

41 There will be an expectation in England that local partners will work together to improve economic regeneration through skills, employment and health. Voluntary and private sector organisations, with their distinctive understanding of the social and economic environment in a local area, will be key contributors to making a success of this initiative.

42 Key aims will be to:

- deliver a significant improvement in employment rates among those of working age, with a particular focus on the most disadvantaged, especially benefits claimants, lone parents, older people and people from minority ethnic groups;
- ensure that individuals within these client groups are better able to both find and remain in work; and
- improve the skills of individuals within these client groups to enable them to progress once they are in work.

43 Each local area will be asked to develop a consortium of local partners, including employers, who have a shared interest in working together to raise local employment rates and improve the local economy. Partners would be expected to identify existing funding streams that they would use to support the work of the consortium, through a process of local alignment or pooling of budgets. Each consortium would also be expected to make use of private and voluntary sector providers to deliver additional employment support.

44 Advantages would flow from:

- rationalising funding arrangements as far as possible;
- simplifying and reducing the targets associated with these funding streams; and
- greater inter-agency co-operation, understanding of, and influence over, each other's objectives and spending decisions.

- 45 Successful bids will receive initial seed-corn investment from central government and a financial reward for meeting their aims. Bids would need to demonstrate robust accountability arrangements for the delivery of agreed targets and a commitment from local employers to engage in, and support, the initiative.
- 46 Within the overall framework set out above, a key aim of this initiative would be to provide a solution that offers the maximum degree of local flexibility, so that local areas can provide local solutions to their particular problems.

## Housing Benefit

- 47 No discussion on improving employment opportunities through the benefits system would be complete without consideration of Housing Benefit, which has long been criticised as an extremely complex and passive system of financial support. We intend to simplify the existing Housing Benefit system to help improve work incentives and increase personal responsibility. Delays in processing and the uncertainty that claimants have about the level of support that they can receive can act as barriers to work. In the majority of cases, payment is made direct to the landlord, which does nothing to assist tenants in developing the essential financial and budgeting skills they need when moving into work.
- 48 We have already made good progress in tackling poor administration and fraud, and have simplified the system to align Housing Benefit with other benefits and tax credits. However, more radical reform is needed to simplify

Housing Benefit and ensure that it supports our wider objectives for welfare reform. The central element of Housing Benefit reform is therefore the introduction of Local Housing Allowance. This approach is currently being tested in 18 local authority areas, and we will build on this experience while developing our proposals for a scheme suitable for national roll-out across the deregulated private rented sector.

## Conclusion

- 49 Taken together, these reforms will go a long way towards creating a simpler, more flexible system. But in the longer term, we want to go even further. Our vision is for longer-term reform of both the benefits system and how we offer support to help people back to work. Our vision is for a single, transparent system, with a single gateway to financial and back-to-work support for all claimants.
- 50 Ultimately, the Government cannot do all of this on its own. We need the help of all our partners to deliver this challenging and wide-ranging programme – and to ensure that we get the system right. But most of all we need to work with the individuals who are without work. Our proposals set out a clear way forward for our welfare system. We believe it must provide security as well as opportunity. It must promote the right to work and full employment. It must support personal responsibility and not undermine it. And it will be based on fairness and tolerance.

- 51 Our economy will benefit from higher employment rates among lone parents, older people and people with a health condition or disability. Taxpayers will gain too as the bills for benefit dependency come down. But the gains for those individuals helped into work will be the greatest: respect, dignity, security, and achievement.
- 52 Our proposals build on the principles established by the New Deal programmes. They are designed to liberate the talents of millions of our fellow citizens who are not properly supported by the present rules. They will extend opportunity. They will address the deeply entrenched pockets of deprivation and inter-generational poverty that still scar many parts of our society. They will set a new direction of travel – bringing together the public, private and voluntary sectors in a new mission to transform some of Britain's most disadvantaged communities.
- 53 The proposals are published for consultation. We hope that you will be willing to contribute your thoughts and expertise, and we look forward to hearing your views.