

## 1. Background

- 1.1 This is the government's formal response to the recommendations made by the Lords Economic Affairs Committee report, *Where Have all the Workers Gone?*<sup>1</sup>, published in December 2022.
- 1.2 The government is grateful for the committee's research on the topic of workforce participation and the wide-ranging hearings it held as part of its inquiry.
- 1.3 The UK labour market has close to record low unemployment, however, vacancies remain elevated at 38.0% above pre-pandemic levels. Therefore, it is important that we continue to focus on getting people into and remaining in work. This includes people who are neither in work, nor looking for or available for work (referred to as 'economically inactive'). The number of inactive working age people in the UK grew during the pandemic. Unlike many other countries similar to the UK, inactivity has not returned to pre-pandemic levels as the economy recovered, with working age inactivity remaining 0.9 percentage points higher than before the pandemic. There are almost 1.8m inactive working age people who report wanting a job.
- 1.4 The government has a wide range of support available to support people to start, stay and succeed in work. This includes our Jobcentre Plus network which provides vital support to individuals, Sector-based Work Academy Programmes (SWAPS) to help customers compete for local jobs, and Restart which provides up to 12 months of intensive, tailored support to help job-ready Universal Credit (UC) and Jobseeker's Allowance claimants who have been unemployed for more than nine months move into sustained employment.
- 1.5 Throughout the pandemic, the Government provided record levels of support to the economy – a total of over £400 billion. The Plan for Jobs, introduced to protect, support and create jobs across the country, included key DWP programmes, such as Job Entry Targeted Support (JETS) and Kickstart, alongside other measures to boost work searches, skills, and apprenticeships. As we see the unemployment rate fall below pre-pandemic levels, some of these programmes have closed while others continue to support people as shown below.
- 1.6 Following announcements made at the Spring Budget 2023, DWP and wider government departments will be delivering an additional wide-ranging package of measures designed to support people to enter work, increase their working hours and extend their working lives. These measures focus on key groups who we know face additional barriers to work, including disabled people and those with health conditions, the over-50s, parents and carers.
- 1.7 We are increasing the support available to those with disabilities and long-term health conditions through the introduction of the Universal Support programme to match people with disabilities and long-term sickness with jobs and provide support and training to help them succeed. We are also introducing the WorkWell

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<sup>1</sup> <https://committees.parliament.uk/publications/33305/documents/180390/default/>

partnerships to better integrate employment and health support and have increased the Work Coach time for these groups. In addition to this, ambitious and extensive reforms were set out in the Health and Disability White Paper to ensure that disabled people have the right support, opportunities and incentives to move into and remain in work.

- 1.8 DHSC are scaling up their support both to prevent people falling out of the workforce due to ill health and to support people with long term ill health to find employment through the Individual Placement and Support scheme. The scheme supports people with severe mental illness into employment, helping more people to access treatment through expansions of Musculoskeletal hubs and digital health resources, and expanding the occupational health financial incentive pilot for SMEs.
- 1.9 To provide additional support for older workers, where the inactivity rate for 50-64 year olds has increased post-pandemic to 27% in December-February 2023, we are improving and expanding the Mid-life MOT to promote effective later life planning and we are working with DfE to introduce 'Returnerships' aimed at providing over-50s with the skills and routes to get back into work.
- 1.10 To incentivise those who are able to remain in the labour market, the government is removing the pensions Lifetime Allowance charge and increasing the Annual Allowance and Money Purchase Annual Allowance.
- 1.11 The cost of childcare remains a significant barrier for people both entering and progressing in work, so for parents, the government announced that we are expanding free childcare so that working parents can now access 30 hours of free childcare per week, for 38 weeks of the year, from when their child is 9 months old to when they start school. From April 2024, working parents of 2 year olds can access 15 hours per week. From 2024, all working parents of children aged 9 months up to 3 years can access 15 hours per week. From September 2025, all working parents of children aged 9 months up to 3 years can access 30 hours free childcare per week.
- 1.12 In addition to this, we are increasing the UC childcare cost cap, paying UC childcare costs up front, providing start-up grants for new childminders and providing £289 million to local authorities to set up wraparound childcare provision in schools.
- 1.13 We are also increasing conditionality for lead carers of children, which will encourage lead carers of young children in receipt of UC to think about and prepare for work now and in the future through increased engagement with, and support from, their local Jobcentre.
- 1.14 The government is supporting six Private Members' Bills (PMB) to increase workforce participation, protect vulnerable workers, and level the playing field, ensuring unscrupulous businesses do not have a competitive advantage. These Bills build on the strengths of our flexible and dynamic labour market and give businesses the confidence to create jobs and invest in their workforce, allowing them to generate long-term prosperity and economic growth.

- The Neonatal Care (Leave and Pay) Bill, introduced by Stuart C. McDonald MP, has now passed second reading in the House of Lords and will allow parents whose new-born baby is admitted to neonatal care to take up to 12 weeks of paid leave, in addition to other leave entitlements such as maternity and paternity leave, so that they can spend more time with their baby at what can be a hugely stressful time.
- The Employment (Allocation of Tips) Bill, originally introduced by Dean Russell MP and now sponsored by Virginia Crosbie MP, has now passed committee stage in the House of Lords. It will ensure that all tips go to staff and allows staff to bring a claim to an Employment Tribunal if businesses do not distribute well-earned service charges fairly.
- The Protection from Redundancy (Pregnancy and Family Leave) Bill, introduced by Dan Jarvis MP has now passed second reading in the House of Lords and will allow the extension of existing redundancy protections whilst on Maternity Leave, Adoption Leave or Shared Parental Leave to cover pregnancy and a period of time after the individual has returned to work.
- The Carer's Leave Bill, introduced by Wendy Chamberlain MP has now passed second reading in the House of Lords and will create a new statutory leave entitlement for those who are caring for a dependant with a long-term care need. This will enable unpaid carers who are employees to better balance their caring and work responsibilities, supporting them to remain in employment.
- The Employment Relations (Flexible Working) Bill, introduced by Yasmin Qureshi MP has now completed passage through the House of Commons and has been introduced to the House of Lords. The Bill will amend the right to request flexible working to encourage a better dialogue between employers and employees about the benefits of flexible working opportunities, increase the possible frequency of requests and speed up the administrative process of requests.
- The Workers (Predictable Terms and Conditions) Bill, introduced by Scott Benton MP has now been introduced to the House of Lords and will give workers who would like more certainty the ability to request a more predictable working pattern. This will help address the one-sided flexibility identified by the 2017 Taylor Review of Modern Working Practices.

1.15 We have been pleased with the successful progress of these Bills through Parliament where they have received cross-party support. We will continue to support them as they progress through Parliament before receiving Royal Assent and becoming law in Great Britain.

1.16 The government has considered the recommendations put forward by the committee and has provided an update on how we are addressing this issue.

## **Recommendation 1**

*The UK stands out among developed economies in having a growing inactivity rate and not reverting to its pre-pandemic trend. The recent increase in inactivity is also significant because it breaks from the historic trend of falling inactivity in the UK.*

*While sickness is rising and does appear to be one factor contributing to higher inactivity, it is unlikely to have been the overwhelming driver of labour force exit that it first appears. Much of the rise in sickness-related inactivity is among people who were already inactive, rather than people who were employed then becoming inactive due to sickness. This points against expecting future improvements in health to feed quickly through into a reversal of recent increases in inactivity.*

*The impact of long COVID-19 and NHS waiting lists on economic inactivity is unclear. We recommend that further work be carried out, as part of the Department for Work and Pension's review into workforce participation, to understand the potential effect of NHS waiting lists and long COVID-19 on the labour supply.*

## **2. Through the Spring Budget 2023 and the NHS deliver plan we are delivering more treatments and reducing waiting lists**

- 2.1. The government welcomes the committee's focus on the impact of healthcare on labour supply. According to the Office for National Statistics (ONS), 'long-term sick' is now the most common main reason for inactivity self-reported by working age people, with increases in the long-term sick inactive group beginning in early 2019.
- 2.2. To ensure that disabled people have the right support, opportunities and incentives to move into and remain in work, we have announced The Health and Disability White Paper which sets out ambitious and extensive reforms to the welfare system to make it better meet the needs of disabled people. To go further and close the disability employment gap, the Spring Budget 2023 announced that we are introducing a comprehensive set of measures to support people in work and into work:
  - Universal Support will provide disabled people, people with health conditions, and people with additional barriers the opportunity to access tailored support to find and keep suitable work. Individuals will be able to opt in to receive up to 12 months of 'place and train' support followed with wraparound support to help them to sustain employment for the longer-term.
  - We are also expanding additional Work Coach time to support disabled people and people with health conditions. This measure provides individuals with increased one-to-one personalised support from their work-coach to help them move towards, and into, work.
  - Working with DHSC, we are also introducing the WorkWell partnerships programme which will pilot support for disabled people and people with health

conditions who want to remain in, return to, or take up work. The programme will be locally led, bringing together the NHS, local authorities and other partners, in collaboration with Jobcentres.

2.3. To take steps to prevent people falling out of the workforce due to ill health and support people with long-term illness into employment, the Spring Budget 2023 announced that DHSC are:

- Expanding the well-established and successful Individual Placement and Support scheme in England, which supports people with severe mental illness into employment. The Government is also introducing employment advisors in Musculoskeletal (MSK) services in England, helping individuals with MSK conditions to return to or remain in employment.
- Scaling up MSK hubs: DHSC will turn community hubs and leisure centres into MSK hubs which deliver evidence-based support for MSK conditions in England so more people can access treatment.
- Expanding digital health resources: DHSC are using digitisation to support management of long-term health conditions by: digitising the NHS Health Check to identify and prevent more cases of cardiovascular disease; and introducing world-leading free access for digital resources for management of mental health and MSK conditions on the NHS website and NHS app, so that more people can easily and quickly access the support that is right for them.
- The government will also expand the occupational health financial incentive pilot for SMEs. SMEs and self-employed individuals will benefit from select subsidised occupational health (OH) services, to support employees to remain and thrive in work.

2.4. NHS waiting lists were growing by around 300,000 per year before the Covid-19 pandemic, reaching 4.57m by February 2020. This increase was then compounded by the pandemic, causing waiting lists to grow further. As set out by the Prime Minister,<sup>2</sup> the government is committed to reducing waiting lists to ensure people get the care they need more quickly.

2.5. To address this, the NHS published a delivery plan setting out a clear vision for how it will recover and expand elective services over the next three years. The plan commits the NHS to deliver 9 million scans, checks, and operations by 2025 – an increase in capacity of a quarter compared to the three years prior to the pandemic – and around 30 per cent more elective activity than it was doing before the pandemic by 2024-25. Additionally, through the pathway improvement programme, the Department for Health and Social Care (DHSC) will create extra capacity for elective care and improve patient health outcomes.

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<sup>2</sup> [Prime Minister outlines his five key priorities for 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/speeches/prime-minister-outlines-his-five-key-priorities-for-2023)

- 2.6. Where possible, DHSC is investing in the physical separation of routine care services from urgent and emergency care. An essential role in achieving this is played by Community Diagnostic Centres and surgical hubs, which will also bring greater capacity. As recommended by the Royal College of Surgeons of England, these Surgical Hubs will focus on providing high volume low complexity surgeries.
- 2.7. Where appropriate, the Department will make use of independent sector capacity to tackle the backlog and deliver value for money. The Elective Recovery Taskforce was launched in December 2022, bringing together academics and healthcare experts to advise the government on how to unlock capacity in the independent sector to reduce waiting times for things like knee and hip replacements.

## Recommendation 2

*The evidence suggests that an increase in people retiring earlier has probably been a lifestyle choice for many, rather than a reluctant departure from the labour market. It is possible that people got used to different habits and ways of working during the COVID-19 pandemic, which prompted them to reflect on their careers. The longer-term question that the Department for Work and Pensions workforce review should address is whether future cohorts of older workers will retire earlier in greater numbers, or whether the pandemic cohort have experienced a unique set of pull factors into retirement that will not apply to their successors.*

## Recommendation 4

*Although detail on the wealth of retirees is limited, the majority of those who have left the labour force to retire do not wish to return to work. It is not clear that measures taken by employers, or the Government would encourage them to return to work, given their stated attitudes. However, the Department for Work and Pensions should consider, as part of its review into workforce participation, what measures could be taken, whether by the government or employers, to encourage future age cohorts to remain in the workforce.*

### **3. We have additional support available for groups we know are more likely to be inactive such as those aged 50+**

- 3.1. The Department for Work and Pensions publish Official Statistics on the economic status of people aged 50 and over on an annual basis. These statistics include a breakdown of the number of older people who are economically inactive with a main stated reason for retirement.<sup>3</sup> The next set of Official Statistics are scheduled to be published in September 2023, containing data from April to June 2023.
- 3.2. The ONS publish the Labour Force Survey (LFS) on a quarterly basis. The LFS shows that 'early retirement' as the reason for inactivity is relatively low by historic rates and has trended downwards since 2011. It increased during the pandemic, but has since fallen to below its pre-Covid level.
- 3.3. The Department will continue to use these statistics to monitor trends in retirement, including any increase in early retirement. It is too early to determine if changes since 2019 are short-term fluctuations or the beginning of a longer-term trend. Recent data shows that the number of people inactive due to early retirement decreased in the period from April-June 2021 to April-June 2022. We will see if this trend has continued at the next statistics release, expected in September 2023.
- 3.4. The age group 50-64 had an inactivity rate of 27% in December-February 2023, an increase from pre-pandemic levels. To target this by encouraging older workers to

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<sup>3</sup> [Economic labour market status of individuals aged 50 and over, trends over time: September 2022 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/economic-labour-market-status-of-individuals-aged-50-and-over-trends-over-time-september-2022)

stay in the workforce and access the training they need to reach their full potential, the Spring Budget 2023 announced:

- The Mid-life MOT promotes effective later life planning in financial resilience, health and skills to help people stay in work for longer and enjoy a secure retirement. DWP are improving and expanding the Mid-life MOT by providing an enhanced digital Mid-life MOT and increasing face-to-face delivery in Jobcentres. The Mid-life MOT promotes effective later life planning in financial resilience, health and skills to help people stay in work for longer and enjoy a secure retirement.
- DfE will also offer 'Returnerships' targeted at the over-50s, which brings together our existing skills programmes, focusing on flexibility and previous experience to reduce training length. They will promote accelerated apprenticeships, Sector-Based Work Academy Programme placements and Skills Bootcamps to the over-50s.

3.5. In addition, the government already have comprehensive support in place to help DWP claimants find, progress and stay in work, with additional support for groups known to be more likely to be inactive; providing an enhanced offer for people aged 50 and over to remain in and return to work:

- Eligible older job seekers on UC will receive more intensive, tailored support during the first nine months of their claim. This provides work coaches with more time to spend with older job seekers who have recently become unemployed, giving them extra support to tackle barriers or difficulties in finding work.
- 37 full-time 50PLUS Champions are now in every Jobcentre Plus District across Great Britain, to support and upskill Work Coaches to deliver success for older claimants. The Champions will work collaboratively with work coaches, employers, and stakeholders to raise awareness of the importance of supporting older job seekers.
- Mid-life MOTs pilots will be delivered to people in work by Reed in Partnership in East Anglia, PeoplePlus in the North-East and Capita in Cornwall and Devon.

3.6. DWP regularly engage with employers to encourage positive attitudes towards older workers and the benefits of a multi-generational workforce, and the adoption of suitable work practices to increase the retention, retraining and recruitment of older workers. Andy Briggs is the Government's Business Champion for Older Workers (DWP) and the Ageing Society (DBT), spearheading work to promote the benefits of older workers and multigenerational workforces to employers across England – influencing employers both strategically and in terms of practical advice.

3.7. Alongside this enhanced offer, for those who became unemployed, Jobcentre Plus Work Coaches have the flexibility to offer all claimants, a comprehensive menu of



help, such as through Restart, Sector-Based Work Academy Programmes (SWAPs), the Flexible Support Fund, Mentoring circles, and 50+ job fairs, whilst being supported by the 50 PLUS Champions.

### Recommendation 3

*Greater flexibility of pensions and a bigger role for private pensions may explain some of the difference in UK and European inactivity rates. Similarly, the design of the UK furlough scheme may have prompted people to experiment with retirement as a lifestyle. However, we received limited evidence to substantiate these claims. Further research should be carried out, as part of the Department for Work and Pensions' review into workforce participation, to understand the potential link between different pensions systems and economic inactivity and the impact of the furlough scheme on inactivity.*

#### 4. DWP regularly reviews the link between pensions and the labour market

4.1. At the Spring Budget 2023, the Chancellor announced key pensions changes to incentivise those who are able, to work for longer and to return to work. This includes:

- Lifetime Allowance and Annual Allowance pension changes: currently, there are limits placed on the total tax-relieved pension savings an individual can make each year and over their lifetime. To incentivise highly skilled individuals such as NHS clinicians to remain in the labour market by reducing the risk of incurring significant pension tax charges, the government will raise the Annual Allowance, the annual limit on tax-relieved pension savings, from £40,000 to £60,000 from April 2023. This will mean that around 80% of NHS doctors will no longer face an unexpected tax charge, with respect to any accruals under the 2015 career-average NHS pension scheme. The government will also remove the Lifetime Allowance charge, the maximum amount of tax-relieved pension savings an individual can have, before completely abolishing it in a future Finance Bill.
- Increasing the Money Purchase Annual Allowance: once an individual flexibly accesses their defined contribution pension savings, the total tax-relieved pension savings they can make each year is restricted to the level of the Money Purchase Annual Allowance. To support those who have left the labour market to return and supplement their income or build up their retirement savings, the government will also increase the Money Purchase Annual Allowance from £4,000 to £10,000.

4.2. The government welcomes the committee's focus on the link between different pensions systems and economic inactivity. The latest labour market statistics show the number of people stating their main reason for inactivity as being "retired" is now more than 10,000 lower than pre-Covid<sup>4</sup>. Data from the FCA Retirement Income Market Data<sup>5</sup> indicates that the total number of Defined Contribution (DC) pension pots accessed for the first time in the contract-based market fell in 2020/21 and was only

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<sup>4</sup> [Employment in the UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

<sup>5</sup> [Retirement income market data 2021/22 | FCA](https://www.fca.org.uk/retirement-income-market-data)

5% higher in 2021/22 compared to Pre Covid-19 (2019/20) volumes – continuing the longer-term trend.

- 4.3. Where individuals do access their pension using pension freedoms, this does not necessarily mean they have become economically inactive. Findings from the DWP's Planning and Preparing for Later Life survey (2020/21)<sup>6</sup> show that the mean expected retirement age is 66 years old. The same survey found the median age at which DC pensions are first accessed was 60 and 23% of those aged over 55 who had accessed a DC pension were still doing some paid work. DWP's qualitative research into individual decumulation journeys (2020)<sup>7</sup> also shows people use pension income to supplement other activities, such as supporting adult children. In some cases, pensions income enables individuals to work flexibly or part-time and stay in employment where they may have otherwise become economically inactive.
- 4.4. The second Review of State Pension age was published in March 2023. The publication sets out the summary of life expectancy, fiscal, economic and labour market evidence considered over the Review.
- 4.5. As part of this, the government also undertook an evaluation on the increase in State Pension age from 65 to 66, which took place between December 2018 and October 2020. This evaluation considered the impact on employment rates, household incomes and income poverty levels of those who became of working-age following the reform. The findings were published as part of the Review.
- 4.6. A further review will take place within two years of the next Parliament to consider age 68. This will ensure that the government is able to consider the latest information that was not available to the independent reviewer at the time, including the 2021 Census data, the economic position, and the impact on the labour market of our package of measures to tackle inactivity. All options for the rise to the State Pension age 68 that meet the 10 years notice period will be in scope at the next review.
- 4.7. HM Treasury and HMRC are publishing an evaluation of the Coronavirus Job Retention Scheme in 2023, assessing its impact on jobs, businesses, households and the macroeconomy, as well as its value for money. Where feasible with the available data, we plan to look at the impact of the scheme on inactivity.

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<sup>6</sup> [Planning and Preparing for Later Life - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/research-data-and-analysis/planning-and-preparing-for-later-life)

<sup>7</sup> [Pension Freedoms: a qualitative research study of individuals' decumulation journeys - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/research-data-and-analysis/pension-freedoms-a-qualitative-research-study-of-individuals-decumulation-journeys)

## **Recommendation 5**

*At an economy-wide level, it appears that a fall in the number of EU workers has been counterbalanced by an increasing number of non-EU workers. This means that, at a macro level, there has been no reduction in the number of immigrants to the UK.*

*However, changes in the structure of immigration are contributing to labour supply problems. Some sectors, especially agriculture and hospitality which relied more on EU workers are experiencing acute labour shortages. The changing structure of migration may explain why there are vacancies in roles associated with younger workers despite much of the rise in economic inactivity being in those over 50.*

*We heard that, if recent changes to labour supply persist, these sectors will find that their only options are to adapt by re-organising the way they produce their output (such as replacing labour through automation or changes to terms and conditions). To the extent that it proves impossible or too costly to adapt in those ways, these sectors will be smaller than they would have been, and some businesses will likely fail. We recommend that the government considers (for example, in the Department for Work and Pension's review of workforce participation) which combination of these outcomes is likely to materialise; and whether any of those scenarios would elicit concern and a policy response.*

### **5. Sector-facing departments across government frequently speak with employers in their sector to discuss industry specific challenges**

- 5.1. The government welcomes the committee's focus on the needs of business and effect of immigration on labour supply.
- 5.2. At the Spring Budget 2023, to ease immediate labour supply pressures, the Chancellor of the Exchequer announced that the government has accepted the Migration Advisory Committee's interim recommendations. This will add five construction occupations to the Shortage Occupation List (SOL) initially ahead of a full review to report later this year, and the government committing to providing more regular reviews in future. These changes will help ensure that the UK labour market has access to skills and talent from abroad where needed.
- 5.3. As the report rightly highlights, the challenges faced by different sectors are sometimes common but often different, and so are the opportunities. To understand the challenges faced, departments, including DWP, work with thousands of employers right across the country to support them with their recruitment needs. The government's jobs and skills offer is therefore flexible to support a range of different employers, sectors and jobseekers and contains a variety of sector-specific initiatives such as DWP Sector-based Work Academy Programmes, DfE Skills Bootcamps, and joint industry-Government led campaigns such as the Generation Logistics campaign for the haulage and logistics sector.

- 5.4. We recognise that the end of free movement has been a significant change for many businesses. The Home Office has carried out an extensive programme of engagement since 2020 to help businesses adapt and prepare for the new system.
- 5.5. We have broadened the eligibility of Skilled Worker visas from graduate jobs only to include medium-skilled jobs at RQF level 3 and lowered the salary threshold from £30,000 to £25,600. This route now covers 60% of jobs in the UK economy. Modelling by the independent Migration Advisory Committee (MAC) suggests these new, lower thresholds strike a reasonable balance between controlling immigration and access to labour for businesses.
- 5.6. But we are clear that the immigration system should not be seen as an alternative for employers to avoid improving pay and conditions for its workforce – which this Government views as the key long-term and sustainable solution for sectors looking to fill labour gaps.
- 5.7. It is not currently our intention to introduce a general immigration route allowing recruitment at or near the minimum wage with relatively short work-based training requirements. This includes any plans to extend the skills threshold below RQF level 3 unless there are truly exceptional circumstances, as was seen with the care sector due to the pandemic.
- 5.8. Beyond work visas, there is a growing pool of migrants with unrestricted work rights, which employers are able to recruit from. These include 6 million plus people granted rights under the EU settlement scheme, those granted rights under our protection routes and those coming to the UK for family reasons, including partners of British citizens and partners of work visa holders.