

# Helping more parents move into work: an evaluation of the extension of New Deal Plus for Lone Parents and In Work Credit

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## Introduction

This summary presents findings from the second and final phase of a two part qualitative evaluation of a series of Department for Work and Pensions (DWP) policy measures targeted on lone and couple parents, which aimed to increase parental employment as well as reduce child poverty. Interim findings from the first phase of the research are presented in a separate summary and report.

The aim of the evaluation overall was to explore whether the measures offered an adequate package of support to parents, in London and non-London New Deal Plus for Lone Parents (ND+fLP) pilot areas, and if the measures, either collectively or singly, encouraged them to enter and sustain work.

This final phase of the research examined the effects of In Work Credit (IWC) and other policy measures on parents' work related decision making and behaviours, looking in particular at whether the measures encouraged and supported work entry, work retention and work progression. A related area of investigation explored how parents were able to balance work and childcare.

## Key findings

- The findings from this research suggest that, for the parents sampled, the main achievement of the pilot extension appears to have been in improving the incomes of parents getting IWC, many of whom would have left benefits for work anyway, rather than to have encouraged those who, in the absence of IWC, would not have otherwise done so. There was, however, a small group of parents who were encouraged to leave benefits and enter work because getting IWC helped to reassure them that by moving into low-income employment, they would be better off, or at least no worse off, than if they stayed on benefits.
- There was little evidence that parents were able to advance or progress in work such that they were able to offset the loss of IWC when it ended, as the policy intended, or that getting IWC reduced the chances of parents suffering recurrent poverty in the future.
- Lack of wage and employment progression was partly due to the poor quality of the jobs many parents were employed in, together with downward pressure on working hours and wages, reflecting the underlying condition of the labour market at the time of the research. The actual or potential loss of eligibility for means tested benefits, particularly Housing Benefit (HB), also acted as a strong disincentive to higher earnings both among lone parents and (potential) second earners in couples, undermining one of the key assumptions about how IWC would work to reduce poverty longer term.
- Extending the target population of IWC to couple parents appeared to have had mixed results. There was no evidence that extending the measures to couple parents had succeeded in its aim of delivering support to these parents on a par with the help available to lone parents.
- As a wage supplement, IWC had clearly made an important contribution to the goal of reducing child poverty, particularly among low paid parents in London and those working part-time (between 16 and 29 hours a week). IWC of £60 had been particularly important in supplementing the

incomes of low paid parents living in London experiencing much higher housing, transport and childcare costs than elsewhere. Nevertheless, the credit is time limited and lasts for a maximum of one year. The evidence from this research suggests that once IWC stops, if there has been no growth in wages or other improvement in employment prospects, the positive effects in terms of raising household income may be short lived.

## Background

### **ND+fLP and IWC**

The ND+fLP pilot was initially launched in five English Jobcentre Plus areas in April 2005 and expanded to Wales and Scotland in September 2006. In April 2008, ND+fLP was extended to include lone and couple parents across all London districts and to couple parents in ND+fLP pilot areas outside London. The most prominent element of support for lone and couple parents in the case study areas was IWC, a tax free payment of £40 per week (later increased to £60 in London) payable for up to 52 weeks to eligible parents entering work of 16 hours per week or more.

### **Research methods**

Sixty-six parents were interviewed face-to-face in the spring and summer of 2010 – 43 couple parents and 23 lone parents. Forty-eight parents lived in London and 18 in the West Midlands. In all the lone parent households and all but two couple households, at least one adult had worked since the extended measures had been introduced, although some had since returned to benefits. Sixteen of the couple parents had been interviewed in phase one. Take-up of the pilot measures, other than IWC, had been extremely low amongst those interviewed. Because of this, much of the focus of the research was, therefore, around IWC.

Face-to-face and telephone interviews were also held with Jobcentre Plus staff in the two case study districts.

## Findings

### **Leaving benefits and entering work**

Virtually all the parents interviewed showed a strong attachment to and valuing of work, coupled with an equally strong rejection of welfare dependency, and many were work ready and actively jobseeking in the period leading up to getting IWC. As such, there was little evidence that IWC, or any of the ND+fLP measures, had any effect on the decisions of these parents to leave benefits or enter work when they did. There were, however, some instances of parents moving off benefits which, without IWC, may not have otherwise occurred.

IWC encouraged these parents to leave benefits by helping to reassure them that moving into low paid jobs would make them better off, or at least no worse off, than if they stayed on benefits. Here, IWC seemed to incentivise work by helping to tip the balance in favour of these parents leaving benefits at the time they did, or for employment which they may not have otherwise considered.

This group included lone parents who had lost their eligibility for IS (due to Lone Parent Obligations) or knew they would lose it in the future. It also included a small number of lone parents in London moving into especially low paid part-time (16-29 hours) jobs who would have been little better off in work without IWC. Also encouraged to leave the security of benefits were parents becoming self employed. For all these parents, the safety net and added weekly income that IWC provided appeared to be a decisive factor in their decision to leave benefits for employment when they did.

## **Work retention**

For many parents, IWC appeared to be functioning as a wage supplement, helping them to retain work by topping up low wage employment, substituting for drops in income when hours of work were reduced by employers and replacing wages lost due to sickness and other unpaid absences from work. This may be evidence of a ‘London effect’, suggesting that IWC may be performing a different role there compared with elsewhere – for although housing, transport and childcare tended to be more costly in London, wage rates were typically no higher.

Most parents had expected to be financially much better off in work but only a few said they were. Without IWC, many would have struggled financially and some said they may otherwise have returned to benefits. Parents who were still in receipt of IWC at the time of the research had serious concerns about how they would manage financially when it ended. Nevertheless, few parents whose IWC had ended had returned to benefits. This was mainly because most of the parents interviewed preferred working to claiming benefits, even if they were little better off.

## **Work advancement and progression**

Low paid employment provided a stepping stone for some parents into work of longer hours or jobs that were better paid. However, due to the immediate and regressive way in which HB is withdrawn as income rises, for many parents, an increase in hours and pay did not necessarily result in an increase in income. These effects were more acutely experienced by parents living in London in private rented accommodation whose rents were typically much higher than for parents living in social housing and those residing outside of London. Low pay also acted as a disincentive to working longer hours. Rather than increasing their hours of work, low paid parents often preferred to spend extra time with their children.

Childcare responsibilities also meant that when career and training opportunities arose in employment, lone parents, in particular, found it difficult to take advantage of them. The high cost of childcare also discouraged some lone parents from working longer hours. Even with financial help, registered childcare was held to be expensive and mostly unaffordable, particularly in London.

Parents who had gained a qualification prior to leaving benefits generally moved into better paid work and better quality employment. Those with low housing costs or whose earnings or circumstances disqualified them from receiving HB were also able to work longer hours and increase their earnings without being penalised financially.

## **Balancing work and childcare**

Few parents in this research identified caring for children as a constraint they had to overcome to enter paid work, or viewed registered childcare as a means of enabling one of both of them to do so. A widespread distrust of formal childcare was evident among most parents and many had strong reservations about using it. Where some form of childcare was unavoidable, for reasons of trust, flexibility and affordability, most preferred to rely on close family and friends. Very few parents had chosen registered childcare in preference to other forms of care, or to enable one or both parents to work. The costs and benefits of working full-time and paying for childcare, together with specific childcare help and measures, were thus rarely considered or taken up.

For the few parents who had accessed registered childcare, financial help had been central to their ability to work. However, even with maximum tax credit help, some parents struggled to bridge the gap between the contribution they received and the full cost of childcare. IWC was used by some lone parents to pay the residual cost of childcare that remained after tax credit support. Under these circumstances, for as long as they were receiving it, IWC had made an important contribution to the ability of some lone parents to remain in work.

## **Policy implications**

This research has illustrated the difficulties low paid parents can face when seeking to increase their earnings and income within the current system of tax and benefits, while also seeking to reconcile work and childcare responsibilities. In showing how the net gain from increased earnings can vary according to housing tenure and rent levels, the research also highlighted an important link between employment, child poverty and housing policies. These issues obviously extend much further than a consideration of the role that ND+fLP and IWC can play in parents work-related decisions but nonetheless provide valuable evidence on the multi-faceted nature of that decision making.

The findings also have implications for the development of Universal Credit. Among the parents interviewed, many needed little additional incentive to leave benefits. Indeed, financial motives were rarely the only or the most important reason for doing so. Some parents chose to enter work even though they were little better off than they were on benefits.

The high rate at which in-work benefits are withdrawn as earnings rise did appear to disincentivise many parents from working longer hours and earning more, particularly those in receipt of HB and living in private rented accommodation. Here, however, high rental levels and the limited availability of social housing seemed to be as important in explaining parents' reluctance to increase earnings as weak work incentives and the high rate of benefit withdrawal. Regardless, therefore, of any improvements which a higher earnings disregard and standardised rate of benefit withdrawal may bring, increasing parental employment is likely to remain a challenge.

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The full report of these research findings is published by the Department for Work and Pensions (ISBN 978 1 84712 956 7. Research Report 732. May 2011).

You can download the full report free from: <http://research.dwp.gov.uk/asd/asd5/rrs-index.asp>

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