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## **Welfare to Work in The United Kingdom**

Martin Evans and Jane Millar

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**ABSTRACT.** Increasing employment and reducing child poverty are two central goals of current government welfare reform policy in the UK and single parents – with their relatively low employment rates and relatively high poverty rates - are one of the key target groups for both. This article outlines welfare reform policies in the UK with particular reference to single parents, and discusses the impact of these. In doing so, it highlights some key differences compared with the US.

**KEYWORDS.** Welfare, welfare reform, single parents, comparative welfare policy

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## **INTRODUCTION AND CONTEXT**

Britain and America are, once again, two nations separated by the same language when it comes to discussion of this commonly named policy area, welfare to work. We use many of the same key words but in a very different policy context. This includes some fundamental systemic differences. First, Tony Blair's Government since 1997 has undertaken a program of "Welfare Reform," as in the US. But the UK version includes a wide-ranging review of all systems of income transfers and is thus far more comprehensive than the 1996 Personal Responsibility and Work Opportunity Reconciliation Act and its antecedents. It includes the equivalent programs to Social Security, Unemployment Insurance, and SSI, as well as public assistance. Second, the UK's wider review of income transfers reflects in part a far more comprehensive system of coverage in the UK, which still maintains a national social assistance safety net for everyone aged over 18, irrespective of status. Additionally, there is a parallel national system of means-tested housing allowances and local taxation relief. The tax-funded National Health System provides both primary and secondary health care free at the point of access and thus avoids the need for means-tested Medicare and Medicaid. Third, the UK system is centralised and uniform, with no equivalent State-based differences, although there are local pilots and programs of various types operating in some localities.

Our approach is to navigate through such contextual differences by concentrating on the shared UK-US policy concern for single mothers, who are called "lone parents" in the UK. (Although this means we are focusing on just one of the groups targeted in the reform process, interested readers are referred to Walker and Wiseman (2003) for a more comprehensive account of the reform process in the UK.) Our target audience is the American social work community who, as in the UK, mostly work for local government (Local Authorities in the UK) and do not have direct involvement in "welfare."

## UK POLICY GOALS

The policy goals for lone parents are part of a wider set of systemic changes to employment, childcare and income maintenance programs that operate across the whole working age population. Over the 1980s and 1990s, there was a rising divide between work-rich and work-poor households despite continued structural changes to programs that focused on the “unemployed.” Numbers of unemployed fluctuated with the economic cycle but across cycles the numbers of inactive people grew – either because of incapacity or through child caring responsibilities, effectively lone parents. This led to a growing polarisation between workless and work-rich households (Gregg and Wadsworth, 2003). Over the same period and as a consequence poverty and child poverty increased greatly.

The government has therefore identified two key – and inter-related - policy goals. The first is to increase employment by reducing worklessness rather than just focusing on unemployment. This has led to a range of active labor market programs called “New Deals” that not only give increased resources to young and long-term unemployed but also extend such programs for the first time in the UK to lone parents and disabled people. Additionally, the need to increase employment of parents gave rise to the National Child Care Strategy and the expansion of “family-friendly” employment measures. Geographic concentrations of worklessness gave rise to a range of area-based programs.

The second major goal is to “end child poverty.” Tony Blair announced in October 1999 that child poverty would be eliminated within a generation. This commitment has now been operationalised through intermediary targets, quartering child poverty by 2005, halving it by 2010 and ending it by 2020, and through the setting of poverty targets, all based on relative income measures and more generous than the US official poverty measure. The short-term policy instruments have been through increases in the generosity of children’s benefits

in social assistance (making welfare more generous) but also making more generous in-work payments to ensure that the mixture of employment (predominantly part-time for mothers) and tax credits, and for some child support payments, combine together to substantially lift the incomes of families with children. Employment has the central role in the strategy for ending child poverty.

### **LONE PARENTS IN THE UK**

Lone parents are defined as anyone with children under the age of 16 who has no co-resident partner. In this instance, the difference in terminology is important as the UK has no welfare policy concern with marital status, and thus single mothers and separated and divorced mothers are defined by their family composition only. Most lone parents (80%) are divorced or separated women. Lone parents are 26% of all families with children and have around 25% of all children (DWP, 2005a). However, 47% of lone parent families live in poverty (measured as individuals below 60% of median equivalised after-housing-cost income) compared with 20% of couples with children. Twenty eight percent of British children live in poverty but this risk of poverty rises to 74% in non-working lone parents (ibid). This poverty is much more likely to be persistent. The employment rate for lone parents is around 55%, which compared to partnered mothers of around 71%, is far lower (House of Commons Work and Pensions Committee, 2004). Around 800,000 lone parents claim Income Support, the equivalent of US welfare and this represents around 44% of all lone parents (own calculations from DWP, 2005a and DWP, 2005c).

Public attitudes to state support for non-working lone parents remains generally positive, especially support for those with pre-school children to choose whether or not to take up paid work (Millar, 2003). Income Support for these lone parents is paid without any obligation to work or seek work, until the youngest child reaches the age of 16. Employment is associated with two thirds of exits from low income for lone parents and the risk of child

poverty for lone parents in part-time employment falls to 27% (from 74% if not working) and falls further to 9% for full-time work (House of Commons Work and Pensions Committee, 2004).

### **PROMOTING LONE-PARENT EMPLOYMENT AND REDUCING POVERTY**

The importance of employment in reducing lone parent poverty has led the UK Government to set a target of a 70% lone-parent employment rate by 2010. To achieve this there have been a number of specific initiatives intended to increase financial incentives to work. These “make work pay” policies have included the introduction for the first time in the UK of a National Minimum Wage alongside a reduction in tax and social insurance costs of low-paid work. From April 2003, the child portions of Income Support were integrated with child support from tax credits into a new unified Child Tax Credit. Additionally, working tax credit can be paid to those with low earnings. For lone parents part-time work is encouraged with a dividing line at 16 hours employment a week. At this point the system pivots and cuts-off entitlement to out of work Income Support and instead pays Working Tax-Credit to lift income levels considerably at the margins of welfare and work. In April 2004, a lone parent with a single child aged less than 11 would receive about £117 per week in basic support, and would also have her rent and local taxation paid in addition. If she works for the minimum wage for just 16 hours a week she has a net income (after her rent is paid) of around £157, a substantial 40% increase in income. Of the total income in work, about a third comes from wages with the rest being made up of tax credits and other means-tested benefits. It must be stressed that tax-credits in the UK are all available concurrently with earnings and no one has to wait until the end of year tax filing to receive payment. This makes the financial gains of work immediate and recognisably so in most cases. Indeed, research showed that most out of work lone parents sought to gain around £40 a week from entering employment (Lessof et al., 2003) and the current scheme almost meets this.

Of course, the actual financial situation of the family in work depends on a number of individual factors, including wages, childcare costs, transport costs, other work-related expenses, housing costs and child support payments (Harries and Woodfield, 2002; Farrell and O'Connor, 2003; Woodland *et al*, 2003; Graham *et al*, 2005). Some families are not receiving the tax credits to which they are entitled and there have been problems with ensuring smooth payments of these tax credits (Citizen's Advice Bureau, 2005; National Audit Office, 2005). The childcare tax credit only pays a portion of the costs of registered care, so is not received by all families who are paying for care. Being in work may also place other pressures on lone parents, including lack of time and difficulties in managing child care (Skinner, 2003; Bell *et al*, 2005). Many lone mothers who do work are in service-sector jobs, often quite low paid, and so work itself may be stressful and/or boring and repetitive. So, although families are usually financially better-off in work, this may not always be the case and they may not feel that they are much better-off when they take all these factors into account (Millar, 2005).

Lone-parent families can also face very high marginal tax rates in work. Apart from Child Benefit, which is paid to all families with children regardless of income level, in-work financial support is income tested. The withdrawal of tax credits as income rises, alongside liabilities for tax and national insurance payments, can give rise to effective marginal tax rates of 70 to 85 per cent. This is a disincentive to additional earners entering or remaining in the labor market and both studies of EITC and British antecedents to these Tax Credits have shown such means-tested in-work support most directly benefits single-earner families such as lone parents (see Blundell *et al*., 1998 and Meyer and Rosenbaum, 2001, for instance).

In addition to “making work pay,” the National Childcare Strategy has also improved provision of childcare places, with new child care places for 1.6 million children by the end of 2003 and plans to increase to over two million places by 2006 (DWP, 2004b). The majority of new money for childcare comes from the in-work tax credits that can pay up to 70% of weekly costs (subject to maximum levels). However, the main financial subsidy for childcare comes in the form of an in-work tax credit which only pays up to 70% of weekly costs and is subject to a maximum level. The rest of the cost must be met by the lone parents themselves, which can be difficult if wages are low. Moreover ensuring that childcare supply matches low-paid working mothers’ requirements in terms of location, quality and quantity is still problematic and area-based targeting of childcare supply to low-income neighbourhoods has also occurred. However, many lone parents choose to work part-time to minimise childcare costs as well as to fit employment around school hours.

<Figure 1 around here>

At the same time as in-work support has increased, there have also been increases to child elements in out of work Income Support, now restructured as Child Tax Credit. Figure 1 shows how far the increases in generosity of these out of work payments have affected different types of families with children alongside changes in generosity of in-work payments. The substantial increases in real generosity have been focused on young children aged under eleven in non-working families, and for all families with some paid work. However, for families out of work, the large increases in real terms in child components of their transfers is offset by no real increases to the amounts for adults. This means that while support for children under eleven has risen by 102%, when these children are placed alongside their parents, the increase is far less – 17% for a sole parent and 29% for a couple

with two such children. At the same time, universal benefits for the first child have also risen by 27%. The combined impact is thus to raise incomes in real terms by at least one sixth for families out of work but to also improve incentives to work by large increases in the level of in-work support.

Overall the combination of in-work tax credits (the pre 2003 programs), the National Minimum Wage and other aspects of reform have been estimated to increase lone parent employment by seven percentage points – mainly though taking up part-time work (Gregg and Harkness, 2003). This has been achieved alongside fall in the poverty rates for all lone parents, not just those in work. Thus, unlike much of the similar increase in employment in the USA, the improvements for working lone parents have not been offset by higher poverty risks for those lone parents that remain out of work. Figure 2 shows the changes in poverty rates since 1996-97 to 2002-03.

<Figure 2 around here>

Figure 2 shows that there is an almost unambiguous improvement on the most difficult of relative poverty measures (after housing costs) for all families with children, the only exception being couples who are not in work (a reflection of their income being in majority made up of adult allowances for social assistance that have not been increased beyond price-inflation. Overall poverty for all children has fallen by 18 per cent with greatest falls in poverty in larger families and in part-time working families (either lone parent or couple families). But even poverty for lone parents who do not work has fallen by 7 per cent.

Survey evidence also shows, and again provides a distinct and counter-view from the evidence from the Survey of American Families in the USA (Zedlewski et al., 2002, for instance), that hardship for lone parent families, in and out of work, has fallen. Table 1 shows

that a variety of measures of material deprivation and financial stress have fallen over the period of reform. UK welfare reform has delivered employment gains without the profile of hardship given by much of the US evidence.

<Table 1 around here>

### **NEW DEAL FOR LONE PARENTS**

Alongside the policies to increase the pull of lone parents into work by making work pay there have also been active labor market programs, which can be seen as accompanying “push” factors. This is an area where there is substantial difference between the US and the UK versions of welfare to work programs. British programs can be seen as persuasive and information based, as a gentle prod, when compared to the erosion of entitlement and increase in mandation and sanctions that have occurred since PWRORA in the USA.

At the heart of the initiative is The New Deal for Lone Parents (NDLP), a voluntary program that primarily offers one-to-one advice and assistance in getting a job. NDLP is available to all lone parents claiming Income Support and has even been extended to those other lone parents who work less than 16 hours a week, although take-up by this latter group is very low. It is a voluntary program that consists of one or more meetings with a dedicated “personal advisor.” Since it began in 1998, it has had a total caseload of over 940,000, which translates into around 680,000 individuals, as some people have been in the program more than once (DWP, 2005b). Around 365,000 job entries have resulted (ibid).

In the early years of the program entry was largely through invitation and self-referral and overall take-up rates were low, around 6% of the total stock of lone parents at any point in time. However, from 2001, there has been an introduction of mandatory employment orientation interviews as a part of a claim for Income Support and at regular intervals during

a claim. These Work-focused Interviews (WFIs) were introduced for all new claimants and rolled out over time for existing claimants and are primarily about information giving and sharing concerning employment plans and opportunities. The mandatory requirement is to attend and take part in the interview; there is no mandation on action following a WFI. But WFIs have increased up-take of NDLP and are often delivered by the same personal advisor. Take-up of NDLP has risen to around 10 per cent as a result, and new and recent lone parent claimants are particularly likely to agree to take part in the NDLP (Evans et al., 2003).

The role of and work done by Personal Advisers (PAs) is the crucial factor in NDLP delivery. They not only offer individually tailored advice to support lone parents into employment by finding employment opportunities from the electronic job database but also assist and support lone parents in claiming in-work and transition benefits. They thus fill both entitlement and employment roles – ensuring that Income Support is paid when lone parents make a claim (there is no equivalent to US diversion approaches in the UK) and ensuring that in-work benefits and help with transitional support is claimed and paid as the lone parent moves into work. PAs thus have to establish and maintain a wide knowledge of local labor market information and link to local childcare information, and this information is all provided in one location (the network of local “Jobcentre Plus” offices).

The PAs’ “toolkit” includes financial planning tools to help lone parents think through and plan changes in income sources and frequency. One element of this has proved to be extremely popular with lone parents, the “better-off” calculation, which enables the PA to demonstrate the likely gains to employment from either a theoretical job or an actual job offer that is in front of her. A lone parent’s out of work claim will compose of three elements, Child Tax Credit, which does not change, but also Income Support and Housing Benefits that will change when work starts. The PA helps to ensure that transitional financial help available from these benefits to “run-on” during the first weeks of employment are in place.

Additionally, to meet one-off needs, the PA has an Adviser Discretionary Fund that can meet up to £300 of costs associated with returning to work – often up-front deposits for childcare, or travel season tickets, clothes or other items. Finally, the other element of the financial planning assistance is help completing tax credit claim forms together with an expedited claim service to ensure that payments in work occur as soon as is practicable.

The PA will also assist with a test trading period for lone parents who want to enter into self employment and can help with some limited training needs and with working under 16 hours for which some assistance with childcare costs and travel are available for a limited period. All of these financial and planning elements of the PAs job are in addition to their skills in job search assistance.

NDLP is a work first program, and it shares this with the vast majority of US interventions. There is little opportunity to train or obtain education through NDLP although access to programs has improved over time but only to low-level vocational skills. The evaluation of NDLP surveyed participants to find out what happened during meetings with their PA. As one would expect from a voluntary program where some participants are “testing the water” there was not a 100% work focus. Table 2 shows the percentages that reported different subjects covered in their meetings with Personal Advisers.

<Table 2 around here>

### **EVALUATION OF NDLP**

There has been a very large investment in evaluation of NDLP alongside the other New Deal programs and other changes in delivery of employment and income transfer programs in Britain (Walker, 2004). The evaluation of NDLP has been both qualitative and quantitative (Evans et al., 2003) and we address these streams of evidence in turn. Most who

take part are positive about the program and Personal Advisers are very highly regarded for both the help that is offered and their attitude and approach. Most participants say that everything they wanted was covered by the program, but the absence of in-built childcare and training elements was perceived as a weakness. Informal outcomes have been found to be important with confidence building and the breaking down of isolation for lone parents, often stuck in the home, a major issue in improving well-being as well as employability and work orientation.

Qualitative evidence from lone parents who have recently entered work gives an indication of how successful NDLP can be to an individual, “Yes, I did go to a fantastic lady ... with the job centre, and she was the one that helped me, worked out the tax credit, all my benefits and she got me some shoes...helped me with the process of filling in the forms...[I was] hoping that I wasn’t going to have some time when I wasn’t being paid... Which is where my lone parent adviser came in, she was great. Anything that went awry, she helped me through...It was quick...the right payment... it’s all been absolutely fine.” (Millar, 2005).

However, in measuring the quantitative impact of the program its voluntary nature has made formal estimates of additionality difficult to establish. Take-up still an issue and the success at getting participants into work is partly due to the most work-ready and motivated coming forward. In order to account for such selection bias a special survey was commissioned in which it was hoped to collect data on motivation and other aspects of attitudes that would enable participants and non-participants in the program to be accurately matched using propensity score methodology (Lessof et al., 2003). The results from this survey and the matching of participants to “identical” non-participants produced unexpectedly high impacts considering the nature of the program, low-cost face-to-face interview(s) with little use of costly elements such as child-care, employment options, or full-time training courses that are used for more traditional unemployed target groups. Estimated

additionality on work entry was 55% with a 25-percentage point difference in exits from Income Support between the participants and their matched control group. There is some argument as to whether selection bias has been properly controlled for and there have been a number of econometric studies to assess the methodology, but even so the program is found to have significant impacts that remain. In terms of cost effectiveness, the low costs of the program ensure that it remains cost-effective even if net additionality levels fall considerably (Evans et al., 2003).

Part of the success of the program has been due to the accompanying macro-economic and policy environment. The UK has had the longest period of sustained economic growth for 200 years, and this continued through the early 2000s. Accompanying NDLP have been the improvements in generosity of in-work support payments discussed earlier. The program has thus been able to take a self-selected group of lone parents and lever-in generous in-work supplements and an emerging growth in child-care provision at a time when demand for part-time low-skilled work was booming.

### **FINAL THOUGHTS**

It is clear from our description that the common transatlantic phrase “welfare to work” hides clear and huge differences in both policy context and content. This is a clear warning about the need to avoid simple, or simplistic, comparisons based on text or rhetoric alone. Despite what appears to be a common and evolving consensus from the OECD and across other welfare state about the role of activation and employment programs for lone parents, these differences, between what may be interpreted as exemplars of the Anglo-Saxon model, far outweigh their harmonised rhetoric. Just because we are singing from the same hymn sheet doesn’t mean we are singing in unison.

But the issues for Britain go way beyond the rhetoric because there are still unresolved issues for policy on lone-parent employment. There is significant cycling between welfare and work (Evans, Harkness and Ortiz, 2004) with accompanying uncertainty about how to ensure better retention and advancement in work. The role of Personal Advisers has always involved in-work support after leaving welfare but much of this has been to assist further with claims for in-work benefits. There is currently in place an experimental demonstration plan to evaluate models of in-work support to encourage retention and advancement but results are not due for two years or more and in the mean time there is continued discussion of the need for mentoring.

Furthermore, although lone-parent employment rates are steadily rising, they are not yet rising fast enough to reach the 70 per cent target by 2010. The options are somewhat limited. Greater use of mandation to make people enter the program or work risks undermining the very things that make the program work as it would mean a shift in focus towards those lone parents who are not already at the margins of work. This would result in a bigger and more reluctant caseload with more complex needs, higher costs and lower aggregate average outcomes. Another option would be to lower the age of dependent children from 16 to, say, the age they enter secondary school of 12, and require work obligations from this group of lone mothers. This would have an effect on existing stocks of lone parents, but unlike the USA such families would not fall out of entitlement altogether as a result, they would merely shift into the unemployed group. They would still receive ongoing benefit support although they would be required to look for work, and take up suitable jobs. Failing that, the considerable proportion of lone parents with health problems would also find themselves in a different part of the system. One lesson from the New Deals is that the boundaries between target groups - unemployed, sick, lone parents - often hides levels of

heterogeneity that crosses the boundaries and that needs individualised tailored responses rather than categorical ones. This lesson has been learned to some extent and more attention is now being placed on assessing needs and responses that do “beyond New Deal” group definitions. The really tough job will be to respond to the “hardest to serve” groups and to assist them into employment and changes in definition or introduction of more mandation does not alter this.

As well as changing the push factors, there is also medium to long-term uncertainty about the pull factors that attempt to ensure that employment and poverty prevention go hand in hand towards 2010 and 2020. The current consensus among independent analysts is that the UK Government will meet its aim of quartering child poverty by 2005 (Brewer, 2004; Sefton and Sutherland, 2005). However, the importance of a *relative* measure of poverty for the Governments’ target means that simply increasing benefits in line with prices (which is the current approach), will not be enough to maintain relative income levels over time. Thus lone parents in low-paid part-time work will fall further behind median income growth and so not escape relative poverty (Evans and Eyre, 2004). Reaching 60 to 70 per cent employment rates would fulfil one of the key policy goals but would not be enough in itself to eliminate child poverty in lone-parent families. More financial support for families with children, greater investment in childcare, more support for working parents through “family friendly” employment practices – all this, and more, will be required to meet the combination of employment increase and poverty elimination. The UK is thus not only attempting to “end Welfare as we know it,” as President Clinton famously labelled US Welfare Reform. To paraphrase Clinton, the UK aims to end child poverty as we know it and this means less focus on caseload reduction but more on fundamentally changing employment and income profiles of lone parents without dismantling their entitlement to social assistance.

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**Table 1**

**Lone Parents; Material Deprivation and Selected Financial Stress Indicators: per cent that cannot afford the item**

	1999	2000	2001	2002
New, not Second hand clothes for family when needed	41	35	28	25
Best outfit for children	20	19	15	13
Celebration with presents on special occasions	27	23	17	14
Money for trips, holidays and outings	59	52	46	41
One week holiday away	74	69	62	58
Problems with debts most of the time	15	13	10	12
Run out of money before the end of the week/month	27	24	21	19
Worry about money almost always	45	38	33	30
Never has money left over	48	40	34	17

Source: derived from list of material deprivation indicators in McKay and Collard (2003), Table 7.1

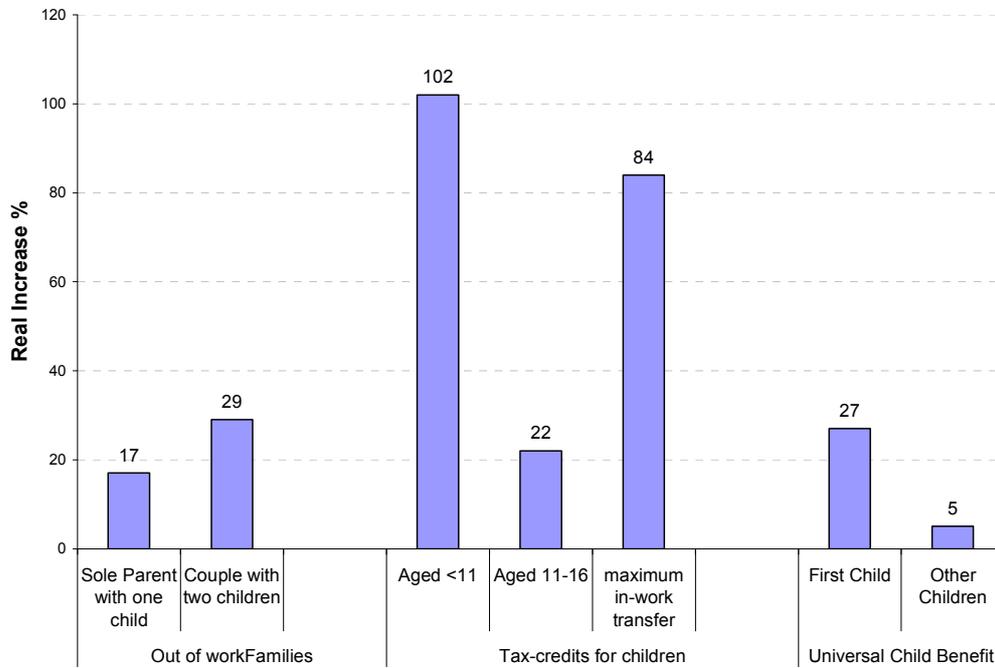
**Table 2****The Content of PA Meetings in NDLP**

% of Participants Reporting	Subject Covered
<b>Employment Focus</b>	
64%	work in general
55%	finding work
45%	help with vacancies
18%	help with job applications
11%	self-employment
<b>Finance</b>	
85%	had “better off calculations”
62%	advice on benefits
35%	help to fill in claim forms
<b>Other</b>	
58%	discussed childcare
27%	had help finding childcare
45%	Discussed training
27%	had help finding training

Source: derived from Lessof, et al., 2003, tables 4.3.1 to 4.3.4

**Figure 1**

**Real Increases (per cent) in Value of UK Transfers for Children 1997-2003**

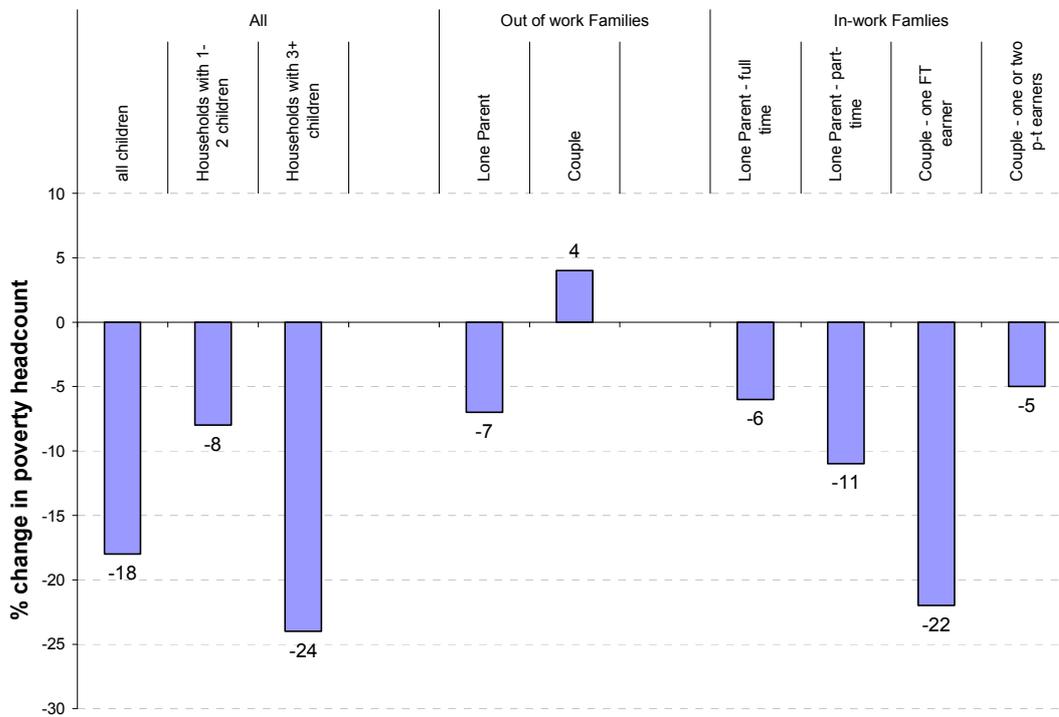


Source: derived from Hills (2004), Table 9.1.

**PLEASE DELETE** the 5<sup>th</sup> Column – 84% maximum in-work transfer

**Figure 2**

**Changes in Child Poverty by Family Type and Employment 1996/7 to 2002/3**



Notes: Proportional change in rates of after housing costs income measure

Source: derived from Stewart (2005), Table 7.3, based on data from the *Households Below Average Income Series*.