

Barriers to work

Lone parents and the challenges of working

Summary

As part of its drive to end child poverty by 2020, the Government aims to encourage 300,000 more lone parents into work. A number of questions arise, however, about the measures that this Government is taking to achieve that goal: Are they appropriate? Will they be effective? What could be done differently? This report looks at these questions from the perspective of lone parents who use CAB services.

Lone parents face multiple barriers when they try to move from benefits to work. Employers are often reluctant to take on lone parents – and lone parents themselves worry about combining work with their childcare responsibilities. Financial stability is vital, but is often hard to achieve: some lone parents moving into low-paid jobs find they are simply worse off in work than living on benefits. The complexity of the combined benefits and tax credit systems makes it very difficult for others to manage. Keeping a roof over the family's head is equally critical, but housing often comes under threat as income levels fluctuate. As well as the financial issues, single parents face significant problems with juggling family needs by themselves, especially finding affordable, good quality childcare.

Since 1997, the Government has been promoting work as the best form of welfare, but has also moved gradually from the use of incentives to sanctions. Citizens Advice argues that effective support for lone parents lies in breaking down the barriers to work: re-organising the tax and welfare systems to reward work; ensuring appropriate childcare; and working with employers to enable them to provide flexible jobs.

Both the Work and Pensions and the Treasury Select Committees have recently highlighted the problems for low income households caused by the complexity of the benefits, tax and tax credit systems. Both committees have recommended a wholesale review of these systems. **Our central recommendation in this report is that the Government should set up a Welfare and Poverty Commission to examine the interaction of the benefits, tax credit and tax systems, in order to minimise complexity and to ensure that work pays.**

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Introduction

The Government has pledged to halve child poverty by 2010, and eliminate it by 2020. However, it is behind in achieving its targets, having failed to reduce the number of children in poverty by a quarter between 1998/99 and 2004/05. Child poverty figures actually rose between 2003/04 and 2006/07 to a current level of 3.9 million on an after housing costs measure and 2.9 million before housing costs¹.

Around half of these children live in households where there is no adult in work – 1.4 million on a before housing costs measure in 2005/06. The Government has therefore concentrated considerable resources on increasing employment rates across the population since 1997. Two thirds of these workless households are headed by a lone parent². There are nearly two million lone parents in Britain today, caring for 3.1 million children, and making up 25 per cent of British families³. Around one million are in work and 750,000 are out of work also claiming income support⁴.

Targeted programmes such as New Deal for Lone Parents (NDLP) have been developed to raise the employment rate of lone parents, which has increased from 45 per cent in 1996 to 56 per cent. The Government has stated a further target of 70 per cent employment among lone parents, against a goal of 80 per cent national employment, that is 300,000 more lone parents should be moving into work.

Until now, lone parent employment rates have been increased by encouraging parents to take part in voluntary programmes such as NDLP, and by providing significant boosts to income for those who work, through the tax credit system. Compulsion has been limited to attending work-focused interviews at increasing frequencies.

The rise in lone parent employment rates is now slowing down, and at the same time, the Government's approach has moved towards greater conditionality. In 2005 the Government proposed a financial incentive to encourage lone parents to participate in work-related activity, but in 2007 they proposed that lone parents will be expected to look for work when their youngest child is seven and work related activities will be necessary to receive benefits. From 2010 lone parents whose youngest child is seven will have to apply for Jobseekers Allowance (JSA), which, unlike income support, involves a compulsory requirement to seek work. The 2008 Welfare Green Paper, *No-One Written Off*, adds a proposal that lone parents should undergo a skills assessment when the youngest child is five. Annex A lists current and proposed measures designed to support lone parents in seeking and sustaining work, which are based on a combination of encouragement and enforcement.

Attempts to encourage work through financial incentives have contributed to increasing the complexity of the welfare system. Tax credits have largely achieved their goal of making work pay but have undoubtedly added complexity for claimants and administrators alike, because they are administered by a different Government department and under completely different rules from benefits.

The need to address this complexity is now widely recognised. The House of Commons Work and Pensions Committee's inquiry into 'Benefit Simplification' concluded that 'Without a wholesale review of all benefits, and tax credits, their interactions and idiosyncrasies, meaningful simplification will never be achieved'. They recommended the setting up of a Welfare Commission to take a holistic look at the way forward for simplifying the benefit system⁵.

1 *On a before housing costs measure*, Department of Work and Pensions (DWP), HBAI stats 2005/06, April 2007

2 *Ending Child Poverty, Everybody's business*, DWP, DCSF, HM Treasury, March 2008

3 *Poverty and Inequality in the UK: 2008*, Brewer, M; Muriel, A; Phillips, D; and Sibieta, L. The Institute of Fiscal Studies (IFS)

4 DWP statistics, November 2007, *No-one Written Off*, July 2008

5 *Benefit Simplification: Seventh Report of Session 2006–07*, House of Commons Work and Pensions Committee, July 2007

In response to concerns about the impact of the abolition of the 10p tax rate, the Treasury Committee came to a similar conclusion, recommending a Poverty Commission to look at all policy areas relating to poverty. This would include the overall functioning of the personal taxation system, the benefits system and the tax credit system⁶.

Is increasing conditionality necessary?

We believe that the NDLP programme has been successful because it has been voluntary, and parents have been encouraged to participate when they feel ready and able to do so. The Government argues, however, that sanctions are necessary to ensure that claimants take up the offer of support to return to work. In a recent research paper it points out that one third of lone parents found that the mandatory work-focused interviews were 'positively motivating', but that 'the impact was more limited on those not wishing to work'⁷.

Other DWP research shows that the current sanctions regime has not helped people get proper advice and information on work and training opportunities, but has increased stress and poverty. It also found that the system is not applied consistently: while the lone parents interviewed appeared to understand that in theory their benefits would be cut if they failed to attend an interview, they also found that many who had been sanctioned weren't aware of it and others who had missed interviews weren't sanctioned⁸.

CAB advisers reported seeing lone parents struggling to live on reduced benefit with no idea why their money had been cut, and later discovering that a benefit sanction had been applied in error. For example:

A CAB adviser found that her client had been living on reduced income support for three years. Jobcentre Plus said that

she had been sanctioned in June 2004, and that her failure to attend a work-focused interview in April 2007 had meant that the sanction remained in place. The client said she'd always attended her interviews and was able to provide names of the personal advisers she had seen. The CAB adviser commented that for this woman the regime of work-focused interviews and sanctions had only led to debt, stress and anxiety, and affected her ability to provide for her son.

There are legitimate reasons why lone parents may not wish to work. One Parent Families points out that 66 per cent of lone parents with children over 11 are currently in work, which suggests that there is a natural tendency for lone parents to move into work when their children are old enough. They also point out that amongst lone parents claiming income support, many would be unable to take up employment due to other circumstances, for example, half have a health condition or disability, and a quarter are caring for a disabled child⁹.

Lone parents tell us about the barriers they face to taking up work, including lack of flexibility on the part of employers, lack of affordable childcare, fear that they will not genuinely be better off, and concern about the effectiveness of the benefits and tax credits systems. This report discusses these barriers to work and urges the Government to ensure that they focus as much policy attention on removing the barriers, to introduce new benefit rules and conditions for lone parents.

Our evidence base

The Citizens Advice network provides advice and information from over 3,000 advice outlets across England and Wales. We estimate that in 2007/08, we advised 106,000

6 *Budget Measures and Low-Income Households*, Thirteenth Report of Session 2007–08, Treasury Committee, HC 326, June 2008

7 *More support, higher expectations: the role of conditionality in improving employment outcomes*, DWP, July 2008

8 *Sanctions: Qualitative summary report on lone parent customers*, Joyce, L; Whiting, K, DWP Working Paper 27, 2006

9 One Parent Families website: oneparentfamilies.org.uk, Lone parents and employment conditionality

lone parents on 300,000 benefit and tax credit advice issues. Around 22 per cent of debt enquiries to bureaux came from lone parents, which amounts to some 374,000 debt issues; advice to lone parents accounts for around nine per cent of all our employment advice which adds up to around 43,000 issues. Twenty-eight per cent of all CAB advice on tax credits, housing benefit and income support was given to lone parents. Given that only seven percent of UK households are lone parents, these figures show that lone parents make up a significant proportion of CAB clients.

This report draws on the experience of our advice work, case reports submitted by bureaux throughout England and Wales, and a number of in-depth interviews conducted with clients of CAB outreaches, working particularly with lone parents or specific black and ethnic minority communities. Questionnaires were used to capture information from people from workless households, both via CAB services in Sure Start projects and from lone parents participating in financial literacy courses run by Horizons projects – a partnership funded by Barclaycard, providing financial literacy training to lone parents.

Twenty-eight in-depth interviews were conducted in the West Midlands and London with lone parents and people from black and minority ethnic groups during September and October 2007. Interviews were short, with open-ended questions about how they managed, whether they were looking for work and what, if any, difficulties they thought they faced.

- Eleven interviews were held with lone parents, one of whom was a man; plus two with women who had disabled partners; one with a woman who was married with a working partner; and one with a couple, both of whom were out of work, giving a total of 15 interviews altogether.

- Six interviews were conducted with Vietnamese, Cantonese and Somali clients in London.
- Additional information was gathered from 33 questionnaires from Sure Start outreaches and Horizons projects. The questions asked how parents felt about moving into work, specifically, what would be their main concerns when thinking about moving into work and what would be most helpful to them.

Barriers to work – our findings

Evidence from the interviews and questionnaires highlighted the following key barriers for this group in entering the labour market:

1. Inflexible jobs and employers.
2. Lack of access to affordable childcare.
3. Lack of tailored support in making the transition to sustainable work.
4. Being financially worse off in work than on benefits.
5. Inflexibility of the benefit system and money problems.

1. Inflexible jobs and employers

Knowing whether their employer would be flexible when their child was ill was the **most common** worry reported by questionnaire respondents. Having this concern resolved was one of the main things respondents believed would enable them to start work.

“I’m not worried about what kind of job I get as long as my employer is going to understand that I have two kids to bring up myself and I can only do so many hours.” Lone father with two dependent children.

Others talked about how they felt employers were unwilling to take them on because of the time they had been out of the labour market.

“They [Jobcentre Plus] want us back to work but employers don’t want us because we’ve been out of work for so long and in theory don’t know what we’re doing anymore. I’m hopeful for more interviews and I’ve done more application forms and sent out my CV and am waiting on those. It’s very disheartening, everyone wants someone qualified in some way. To get back into work means you’ve got to do some form of training in some area.” **Lone parent with two teenage dependent children.**

The Government’s local employment partnerships scheme engages employers who are willing to work with groups often overlooked in the labour market, including lone parents. The scheme includes work-focused seminars and a guaranteed interview for those ready to work. It is still the case, however, that lone parents who have been out of the labour market for a long time are more likely to move into low skilled and low paid work. The interviews revealed much about the quality of low paid jobs and the failure of employers to meet their statutory obligations. Low paid jobs often offer the least flexible arrangements for employees. In fact many require unreasonable flexibility from employees – in terms of working varying shift patterns at short notice. CAB evidence finds that many employers fail even in their statutory duties to provide sick or holiday pay, while others even overtly suggest that they prefer not to employ lone parents.

A lone parent of a 16 year-old in full time education was working 20 hours in a bar. She worked from 12-4pm each day which meant she could be home when her son came home from school. After eight months of being paid less

than the minimum wage, she called the enforcement helpline which resulted in an increase up to the minimum rate. She didn’t receive any back-pay and when she asked for it, her employer guessed that she was responsible for the contact from the enforcement officer. After initially asking her to sign to say she’d received the money – when she hadn’t – he paid. The client felt that her employer then began to treat her differently which included changing her shifts without negotiation or warning. The proposed new hours were later and didn’t fit with her responsibilities for her child.

A lone parent helped by a Worcestershire CAB was worried about her income support and housing benefit after being sacked after just three weeks in telesales work. Her employer told her she wasn’t wanted as she wasn’t selling enough. She had only been paid £4 an hour, despite minimum wage for someone aged 20 being £4.60. She had been paid by cheque, had no pay slip and no written contract. She had worked for 12 hours, 15 hours and another 12 hours within the three weeks before leaving. Her income support was stopped and she was told it would take three weeks to reinstate.

We therefore welcome plans to extend the right to request flexible working to parents with children under 16 years. We also acknowledge the success of the Local Employment Partnership scheme, but question how many smaller employers will want to sign up to it.

We also welcome the Government’s recent campaign to raise awareness of the national minimum wage – they report that their promotion led to a 400 per cent increase in calls to the helpline. We would like to see similar attention given to promoting awareness of wider employment rights and this should be seen as part of the strategy for

tackling child poverty. We therefore welcome the recommendations in the report by the BERR vulnerable worker enforcement forum to raise awareness of basic employment rights through a nationwide campaign¹⁰.

The DWP and Jobcentre Plus could play a role: Jobcentre Plus personal advisers should all receive training on employment rights and these rights should be covered in group work preparation sessions.

We would like to see the DWP and the Department for Business, Enterprise and Regulatory Reform (BERR) produce a joint leaflet on employment rights, covering advice on what to do if an employer denies an employee their fundamental rights. Leaflets should be given out to clients completing Jobseeker's Agreements and at work-focused interviews.

Where personal advisers or JSA fortnightly review officers become aware of employers who are failing to comply with the minimum wage, they should routinely report them for investigation by the Enforcement Agency.

Citizens Advice has argued for many years for a Fair Employment Agency¹¹ to ensure that all workers are able to benefit from the range of employment rights introduced by this Government. Like the Minimum Wage Enforcement Agency, the Fair Employment Agency would have the powers to investigate, inspect and enforce compliance, removing some of the burden on enforcement from vulnerable workers themselves.

2. Lack of access to affordable childcare

Caring responsibilities were one of the main problems identified by interviewees and questionnaire respondents. The following problems with childcare were highlighted:

- Childcare facilities were not open at the hours needed.
- Flexible working hours made committing to a childcare place difficult.
- Difficulty of long travel to different childminders before and after work was experienced.
- School club not taking all the family, necessitating use of many centres.
- Long school holidays seen as a major problem by virtually all.
- Deterred from claiming for help with childcare through tax credits because they were paid in arrears and because of previous delays with HM Revenue and Customs (HMRC).

Being able to get advice about and help with childcare was the second most common response to the question about what would help most in considering work.

"If the supermarket offered me a job around school holidays, I would go for it – that would be brilliant. Some jobs you have to work on Saturday. At Asda it's one Saturday in every three and if you're a single parent, there are child care issues. They cannot necessarily go to their father for the day." Interviewee with three school age children.

"...you are always asking favours, time off or you can't work this and it is difficult. A few times I had to work Bank holidays, and childminders don't work Bank Holidays and I had to drive 25 miles to my father and there again afterwards to pick them up. If I didn't drive I couldn't have worked. I was very tired. The quality of time spent with the children was limited." Interviewee with four children.

It was clear that those best able to work around the difficulties of childcare were those who had support from family and friends.

¹⁰ *Vulnerable Workers Enforcement Forum final report and Government conclusions*, BERR, August 2008

¹¹ *Somewhere to turn*, Citizens Advice, 2004 and *Rooting out the Rogues*, December 2007

A lone parent who works at a family centre on two days, a shop one afternoon, and runs a holiday club Monday-Friday every day of the holidays said: "I wouldn't be able to work at all if it wasn't for family and friends." Her children are at school and if she cannot be there for them, she says: "If it's a morning, I ask my mum and dad and if it's an evening, I generally ask my friend."

"My child goes to a childminder on Tuesdays and Thursdays from 2.30-4.30pm and my mum [with whom she lives] looks after him in the evenings and at the weekends." **Interviewee with one child.**

Getting childcare at short notice or for variable hours is very difficult. Where it is available, it is very expensive. One client reported that her hours meant that she had to use very expensive childcare agencies that cost £400 a week. For lower paid workers these costs would simply be prohibitive.

It matters how childcare costs are paid: some found that paying them up-front risked putting them in debt regularly until their tax credits arrived. One woman spoke of wanting to work full-time but that would mean having to sort out childcare which she felt was a big financial risk.

"I'm managing my money each week because everything comes in and out on a weekly basis, so I know where I am. I barely manage and if things go wrong, I'm in a mess and I just couldn't cope with late payment of childcare. I manage my affairs to control my debt and not allow it to get worse. I am in debt and don't like it. I never was before I was a single parent." **Interviewee.**

"A friend of mind is a childminder and she closes at 6.00pm. I'm not always finished by then and anyway the cost is

prohibitive. I am on basic minimum hourly rate and I would spend nearly two thirds of what I earn on care which doesn't make it worthwhile." This interviewee went on to say that she didn't feel that claiming help from tax credits would help as she would still have to pay costs up-front and her costs were very variable.

The Childcare Act 2006 (section 6) obliges local authorities in England and Wales to provide sufficient childcare to meet the needs of working parents, with particular regard to the needs of lower income working families, from April 2008. Until this is implemented, lack of affordable childcare is still a significant barrier to work. The Daycare Trust's 2008 childcare costs survey found that parents continue to face increasingly high costs for nurseries, childminders and out-of-school clubs. In England the cost of a typical nursery place for a two year-old has increased at more than twice the rate of inflation to £159 per week, and in Wales by four times the inflation rate, to £142 per week¹².

We support the Daycare Trust's recent recommendations to improve access to appropriate and affordable childcare by:

- Expanding free places for two, three and four year-olds to at least 20 hours a week, for 48 weeks in the year, and by subsidising out-of-school activities for all 11-14 year-olds and for younger children from lower income families, aiming ultimately to make them free of charge.
- Tackling the affordability crisis by giving local authorities the means to develop sustainable services in poorer areas and provide free places for those missing out, including places for disabled children, parents needing out-of-hours care, Further Education students and parents of under-threes who want to train.

3. Lack of tailored support in making the transition to sustainable work

Our evidence highlighted that when lone parents move into work, they need:

- tailored help in finding the right work or training;
- support to make that transition, both before and afterwards; and
- comprehensive advice on their financial position in work.

In April-May 2008, Jobcentre Plus saw 158,698 lone parents for work-focused interviews¹³. Some of the lone parents interviewed, felt that personal advisers were limited by process, rather than delivering a genuinely personal service when they needed it. The advisers did not have the time in the interviews, nor the flexibility outside the schedule, to provide the personalised support needed to help parents move into work after a long period away from the labour market.

A lone parent with two teenage children spoke of her frustration in trying to get help from her personal adviser to move into full time work. For the 18 years whilst her children had been growing up she had mostly worked a few hours a week. She had even come off benefits for a while but when one of her children got into trouble at school, she found she needed to prioritise spending more time at home. She'd never had to go for an interview and realised she really needed help. "It's a deterrent but more so if, like me, you're out of a 'proper' job for a long time, trying to get back in, you're not confident, you don't know what you're doing any more, so it's like starting again, being a different person. But if you don't know where to start and they're not giving you help ... you won't move forward. I do feel I'm being pushed aside and it doesn't matter. There's a world of help out there, 'we'll help, we've even got money to give you

help' but you can't get in there, they don't want to know, unless it's on the computer (the next programmed interview date with the personal adviser), they don't want to know. If you want to see them, they are not there, they don't want to help you. "

Another client complained that she felt her personal adviser saw supermarket work as her best option.

"He just scrolls through and says, 'you don't want to do that and you can't do that ... we've got nothing for you'. You can't read what's on the screen because he's scrolling through that fast and whether you would consider having the job that he's dismissing. I'm not saying they're all like that. They seem not to have a clue and don't know what I'm qualified for. He seems to have got me pegged for shelf filling in supermarkets and didn't consider anything else – his decision, not mine." **Lone parent of teenage children looking for full time work.**

It is essential that personal advisers are trained to tailor the support they offer individuals, and are given the time to be flexible.

CAB evidence highlights the limitations of the current New Deal programmes in supporting the specific needs of jobseekers. Some CAB clients keen to move into sustainable work and actually engaged in work-related activities felt that intervention from Jobcentre Plus was counterproductive, as it was not sufficiently flexible.

One couple interviewed were both out of work. The man had been made redundant and problems adjusting to the woman's part-time earnings resulted in her leaving work too. He had taken up a bricklaying course but was still signing on every two weeks. One week he was

told he must sign on to New Deal and he explained his course to the New Deal adviser. His adviser was really helpful, but when literacy and numeracy tests found he needed further support he was told he'd have to do another test and go on ND Gateway, which would mean coming off his Bricklaying course. The New Deal programme was due to start the same day as his exam – which after almost a year on the course he didn't want to miss, but he was told that he'd lose his benefits if he went to the exam instead of the New Deal programme. He felt that Jobcentre Plus was proving a barrier to his return to quality work. "It's as though you're just processed as a number. You do what they say whether it actually works to get you in work or not." The ironic thing was that using their initiative they managed to work round it, by him signing off and his wife signing on just so he could do the exam with no break in their claim. Her perception was that ".... they want you to accept minimum rates at dead end jobs and they don't help you to better yourself." She was slightly worried about being called up for a New Deal interview herself as she was also studying for an NVQ level 2 in childcare which she wanted to raise to level 3.

Another CAB reported that a client on a business administration course was told that she would face sanction if she did not accept a volunteering placement as part of New Deal. It clashed with her course but they could not take account of her hours in college or that she had exams coming up.

In January and February 2008 the Public Accounts Committee published two reports: *Helping people from workless households into work* and *Sustainable employment: supporting people to stay in work and advance*, which

emphasised the importance of training and skills.¹⁴ Some lone parents told us about the difficulties getting help from their lone parent adviser to do training courses and develop their skills in order to widen their job opportunities.

A Vietnamese lone parent with limited English had put herself on an English course. Her personal adviser offered help to go on a cleaning course but when she explained that she was studying English and it would clash, she was just told to go away and come back when she was ready.

"I've just finished a GCSE and got a B. I rang to ask my personal adviser if I could do another course and what benefits I would get, but she never got back to me. I went down to the college to look for courses. I would love to have a career but I don't know what I'm good at. I don't know what there is apart from the supermarket, so I thought college might help me better my qualifications. They asked me to see a career adviser but it didn't happen and now the new courses are starting". **Lone parent with three children aged 4-15 years.**

Citizens Advice therefore welcomes the proposed 'closer integration of employment and skills provision' and 'faster access to the right training'¹⁵, but **we believe that training courses should not automatically be seen as secondary to taking up a low paid job. We strongly recommend that more weight is placed on people's personal efforts to pursue training, and that advisers should have the authority to use their discretion in applying benefit sanctions.**

Under the new regime, under which lone parents are required to seek work when their youngest child is seven, the initial JSA

¹⁴ *Helping people from workless households into work*, HC301, January 2008, and *Sustainable Employment: supporting people stay in work and advance*, HC131, February 2008

¹⁵ *In work: better off*, executive summary, para. 45, DWP, July 2007

interview is the opportunity to identify an individual's barriers to work, and determine the appropriate job-search activity to be recorded in the Jobseekers Agreement. This interview is scheduled for only half an hour, which may not always be long enough to address the barriers in detail, and there is an aspiration – but no guarantee – that it will be conducted by a specialist lone parent adviser. **We recommend that all JSA agreements for lone parents are completed by specialist lone parent advisers, and interviews are extended to 45 minutes or one hour.**

The JSA regime is based on the expectation that 40 per cent of claimants will find work for themselves within the first three months. It then increases both support and sanctions as the client spends more time on the benefit, including a skills assessment after three months¹⁶. **We recommend that the option for a skills assessment should be offered at the initial work-focused interview.**

Citizens Advice evidence shows people can be pushed into jobs with low wages and poor prospects to increase their earnings when they might be better off training for skills which in the longer term would bring higher incomes. **We recommend that all claimants reliant on an income top up from the In-work-better-off credit are given full skills assessments and the opportunity to take courses to improve their skills. This would attempt to boost their earning power, increasing their opportunity to earn more than the minimum wage and over time reduce dependence on subsidies.**

For vulnerable claimants, finding work is only the beginning. They will often need further help through the transition from benefits to work, including specific help with financial changes, readjusting payments and budgeting. As noted in the *Interact* report of December 2007, the loss of passported benefits, though significant, may not be

recognised until after the move into employment¹⁷. This may then cause difficulties for staying in work and out of debt. For some lone parents, juggling a variable income as well as new demands, such as childcare and transport, can mean that they fail to manage without significant support in work.

Last year I found a full-time job but it was difficult because I had no car. It failed because the first month they cut all my income. I had no income support but still all my bills, rent, school meals, everything but no salary until the end of the month. It was also quite difficult to get to pick up the children in time. The school club had refused to have them all, then my brother helped but he had problems getting to work, then one neighbour would take them and pick them up for me. The school club was very expensive, no deductions for a family and they would have had to be dispatched to different clubs in the holidays. **Lone parent, recently divorced with five children aged 4-10 years.**

Lone parents may not be aware of the new support available to them – such as the 26-week In-Work Advisory Support provision, or In-Work Emergency Discretion Fund. **We welcome these provisions, but recommend that the support of a personal adviser should be available for one year after clients move into work.**

Helping clients assess their full benefit entitlement and income maximisation is central to CAB advice work. Every month advisers help with around 12,500 queries about eligibility to income support, tax credits and associated passported benefits. The complexities of the benefit and tax credit system – and in particular how housing benefit and tax credits interact – mean that individuals are unable to predict easily whether increasing their hours of work will

¹⁶ Ibid, chapter 2

¹⁷ *Interact: benefits, tax credits and moving into work*, Community Links, Low Income Tax Reform Group, Child Poverty Action Group, December 2007, page 19

bring in an overall increase in income. Working extra shifts or doing overtime bring in additional costs of childcare, travel and school meals, as well as complicating the reporting process for benefits. These factors together can mean that working in low paid jobs can leave people no better off.

Given the complexity of people's finances, it is essential that they receive good quality information and advice. The CAB client research highlighted the importance of giving clients good, clear advice on their financial position in work, as compared with the position of being out of work and on benefits. Inadequate information and advice about benefit entitlement from Jobcentre Plus can have a significant impact on a claimant's ability to manage the change. CAB advisers often report a complete lack of recognition by Jobcentre Plus of the range of other benefits that claimants get, such as free school meals.

Providing lone parents with comprehensive and understandable better-off calculations is crucial in enabling them to consider returning to work.

One CAB had to translate an incomprehensible better-off calculation provided by Jobcentre Plus when the client had visited them to seek advice on returning to work. The calculation included the following statement: "A WTC estimate based on CY income is not appropriate where CY income is more than PY but less than £25,000. Please refer to the PY WTC report for an estimate of WTC." Not surprisingly, he did not understand what it meant and as the Jobcentre Plus adviser did not explain it to him, he felt it was difficult to make an informed decision about returning to work.

We recommend that Jobcentre Plus personal advisers must be trained to provide accurate better-off calculations and comprehensive advice, including:

- an assessment of the loss of passported benefits;
- extra travel costs;
- childcare costs not met by working tax credits or housing benefit; and
- the drop in tax credit income in the second year of return to work

Advisers should also be able to identify and assist with claims for housing and council tax benefit and any other local assistance such as school uniform grants.

As the income of low income households is increasingly made up of a mixture of benefits and tax credits, administered by a number of Government departments, it is vitally important that wherever the customer makes contact they are able to get advice and support to claim the full range of their benefit entitlements. **We therefore recommend that tax credit office staff are also able to advise claimants on eligibility for housing and council tax benefit. In the longer term the aim should be the creation of a single claims process.**

4. Being financially worse off in work than on benefits

The interviews, questionnaires and the evidence from bureaux all highlighted the importance to lone parents of **actually** being better off in work than on benefits, taking account of all the additional expenditure and effort associated with working. Worrying about having to pay for housing was the most common concern expressed. One woman told us about her experience of when she was a lone parent:

"When I had my first child, I was single and not working, on benefits and it was quite difficult. I wanted to go back to work but when I went to the Jobcentre I found out that I'd only be £10 better off. I could therefore see no real benefit from working for a whole week. It's no incentive to encourage women back into

work. Now I'm off benefits I could get a job and I wouldn't lose financially. There was no incentive before. I have found Sure Start. I'm doing back to work courses here such as the childminding course, NVQ2, domestic violence, first aid and a cooking course which will help me. I've thought about working and can consider it now."

what is coming in every week."
Interviewee with children aged 4-15 years.

The information seen as most helpful by the highest number of respondents to the Sure Start and Horizons questionnaires, was knowing how much better off they would be from wages and benefits.

"The Jobcentre Plus personal adviser said she could see I wasn't ready to go back to work yet. She worked out if I worked at Asda I would be £50-£60 a week better off, but then I have to find the bus fares and the childminder and the fares to and from the minder. When you've got children, you need to know what's coming in. Security of knowing

Better-off calculations

According to DWP research, 87 per cent of Jobcentre Plus better-off calculations find that the lone parent will be better off in work, allowing for income supplements such as tax credits¹⁸. The introduction of the in-work credit in April 2008 is likely to have increased this percentage as it will increase back-to-work income for the first year of work.

Figures 1 and 2 below show the impact of different working hours on the weekly income of a lone parent with two children, based on NI and tax rates at April 2008. S/he is earning £6 an hour, and paying rent of £85 per week, and council tax of £20 a week. Her childcare costs rise as her working hours rise.

Figure 1, below, shows how someone moving off income support into 16 hours of work can

Figure 1: Change in income moving off income support and into work.

Hours worked per week	Net weekly income from work after tax	Total income from work and including tax credits; child benefit; housing and council tax benefit; and in-work credit	Net disposable income after paying rent, council tax and childcare costs	Net gain in overall income
3 plus income support	£18.00	£305.43	£200.43	—
16	£96.00	£426.41	£271.41	£70.98
20	£115.20	£453.54	£273.54	£2.13
25	£135.90	£480.89	£275.89	£2.35
30	£156.60	£512.84	£282.84	£6.95
35	£177.30	£543.32	£288.32	£5.48

¹⁸ Integrated finding from the evaluation of the first 18 months of lone parent work-focused interviews, Thomas A and Griffiths R, page 38, referred to by Yeo A in Experience of work and job retention among lone parents: evidence review, DWP Working Paper 37, 2007.

initially boost their household income by around £70 per week. This is because most lone parents now benefit from the new £40 in-work credit from the DWP. However, the financial gains from increasing hours of work are very low. Although working 20 hours instead of 16 will show a net gain of £19 on her payslip, the consequent reduction of means-tested benefits and tax credits will result in her only gaining £2.13 overall, or 53p for each of these extra hours worked. The gains for increasing hours to 30 are better because working tax credit pays an extra annual element of £735 to those people who work 30 hours or more per week.

Once a household's income rises above the thresholds at which a maximum entitlement

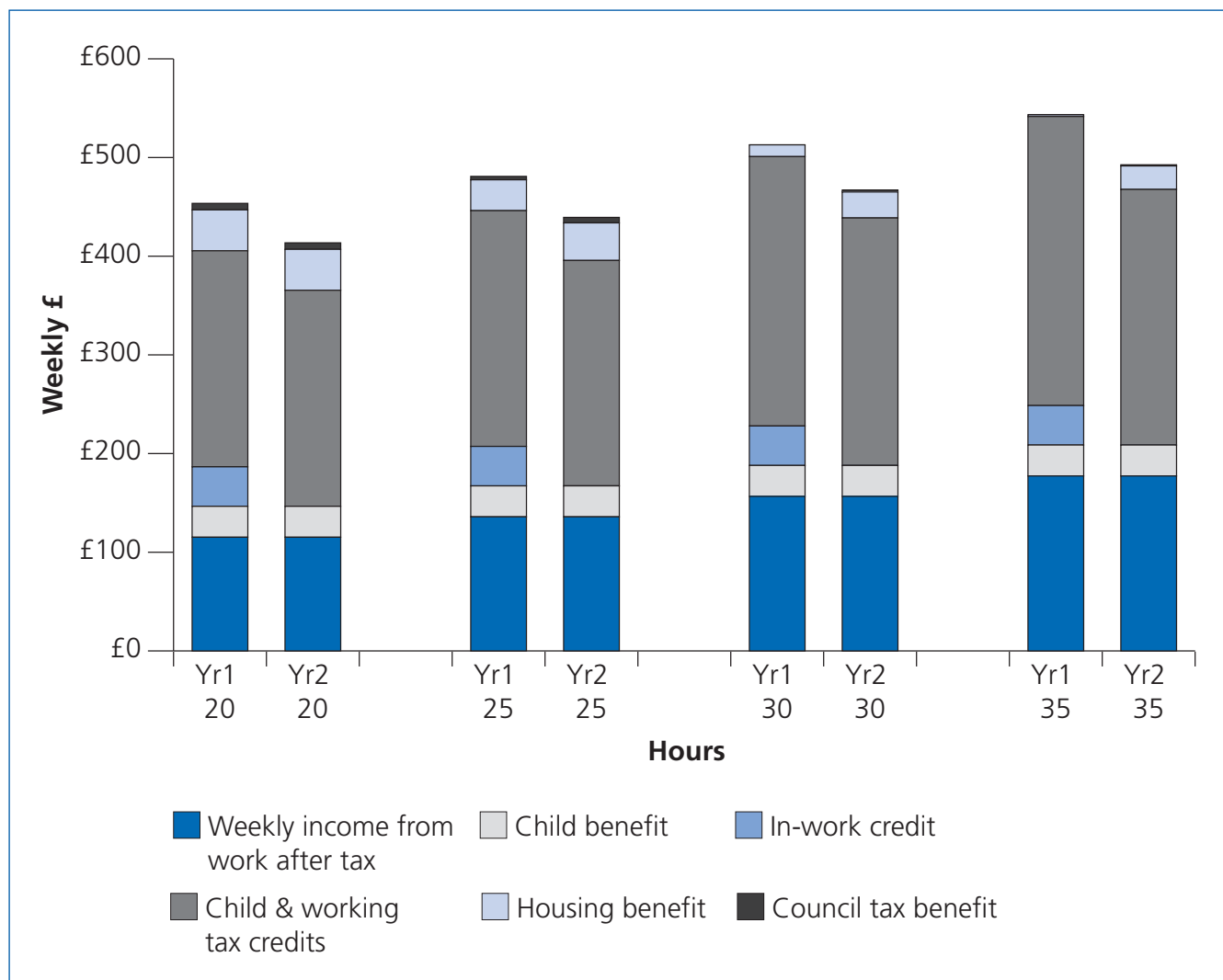
to a benefit or tax credit applies, benefits are reduced. Housing benefit and council tax benefit are reduced at the rates of 65p and 20p respectively, for every extra pound of income. This explains the very small incremental gains from increasing working hours.

At 35 hours, the worker has such a high income from tax credits that s/he is no longer eligible for housing benefit.

Figure 2 shows:

- Income in the second year of return to work is lower than the first year in all cases. This is because, firstly, the £40 in-work credit (which is disregarded when

Figure 2: Changes in income sources as hours and wages rise. (Expenditure on childcare, council tax or rent is excluded).



calculating entitlement to other means-tested benefits and tax credits) ends after the first year. Secondly, tax credit calculations are based on the previous year's income and allow an increase in the current year of up to £25,000 to be disregarded. For someone returning to work, the previous year's earnings will be nil, so unless they earn more than £25,000 in their first year in work, their tax credit award will be based on the nil income from the previous year. In subsequent years, the tax credit award will be based on the earned income and as a result is likely to be lower.

- A lone parent in low-paid work is dependent on income from a total of six sources and the amounts from the means-tested elements change as hours of work and income from wages change. Once a lone parent is working 30 hours, the extra income from wages and tax credits almost eliminates any eligibility for housing benefit. However, income from housing benefit and council tax benefit then go up again when tax credit income falls in the second year of work, although this does not fully compensate for the reduction in tax credits.

In the case below, a 30 per cent increase in the number of hours worked per week only achieves just over one hour's worth of extra income:

A lone parent of three school age children was working 42 hours a week at £6.05 per hour, as a dental nurse. She wanted to spend more time with her children and had been offered the opportunity to work fewer hours. The adviser helped calculate her income based on cutting her hours to either 25.5 hours or 34 hours. Working 34 hours, would only give her about £6.50 more than if she worked 25.5 hours, which would mean working 8.5 hours

for £6.50. So she had very little incentive to work more.

The budget report of 2008 noted that the number of people making such small financial gains for working extra hours (technically known as marginal deduction rates) has reduced in the last ten years – with almost 75 per cent reduction in those losing more than 70 per cent of extra income earned. The number of people facing marginal deduction rates of over 60 per cent, however, has soared to almost 1.9 million.¹⁹

The poverty trap facing low income home owners is even more acute as there is no in-work help with housing costs, and help with mortgage interest through income support (ISMI) is only available after a 39 week wait – too late for those with no savings or insurance provision²⁰.

A lone parent from Gloucestershire was working part time. She had three children, one of whom was disabled. Having recently separated from her husband, she needed to start paying the mortgage. However she could get no help with the cost of the mortgage while she was working and felt she had no choice but to give up her job and claim income support. The alternative was to leave the family home and rent elsewhere, but as their home had been specially adapted to meet the needs of her son's disability she didn't want to do that.

Home owners also lose out on help with childcare costs. While tenants can get help with a maximum of 97 per cent of childcare costs through a combination of payments within tax credits and disregards in housing and council tax benefit, home owners can only get help with 84 per cent of childcare costs through tax credits and the disregard in council tax benefit only.

¹⁹ Tax credits: improving delivery and choice – a discussion paper, HM Treasury and HM Revenue and Customs, May 2008

²⁰ Set up to fail: CAB clients' experience of mortgage and secured loan arrears problems, December 2007

Recent DWP research evaluated three back-to-work initiatives and found that the financial incentive provided by working families' tax credit was more helpful overall than other forms of support²¹. From April 2008, the Government rolled out a new in-work credit, which pays £40 per week (£60 in London) to qualifying parents for up to 52 weeks. In recognition of the financial instability of returning to work, the 2008 Green Paper states the DWP's intention to pilot an additional 'in-work-better-off' credit, which would top up income to ensure that families were at least £25 better off than they would be on benefits, but only lasting for six months.

While these short-term credits contribute to the immediate needs of parents already close to the labour market, they also increase the complexity of a family's income in the first year, and do not necessarily produce a sustained increase in income compared with tax credits and their predecessors. The evaluation of the in-work credit pilots found them to be most successful in improving the situation for those who would have returned to work anyway, rather than helping lone parents who faced serious financial barriers to work²². Even if they receive good advice which explains that these credits will end, and still decide to work, lone parents returning to work on low incomes have to adjust to the drop in income after six months or a year, when both credits come to an end, and tax credit income also drops.

In contrast, the Government's plan to disregard child benefit in calculations for housing and council tax benefit for working households from October 2009 provides more effective help in the long term. By allowing families to keep more of their income on returning to work, this measure significantly boosts work incentives – at least for those in rented accommodation. The lone parent with the circumstances described in the table above will see gains of around £20 from working

more than 20 hours. However, the take-up rate of housing benefit and council tax benefit among working households is 50 per cent at best. **We therefore recommend a concerted drive to improve take-up of housing benefit amongst eligible working families.**

We welcome the Government's internal review of the housing benefit system²³ but would like to see a broader review of ways in which all low income households, regardless of housing tenure, can be supported to meet their housing costs.

We recommend that the Government set up a Welfare and Poverty Commission whose remit should include:

- **Removing help with childcare costs from housing benefit and examining ways of supporting childcare through one system. This could be by increasing the support within the childcare element of tax credits.**
- **Creating one mechanism to help low income tenants and home owners alike with their housing costs. This could be done by adding a housing element into working tax credits, which would help move many lower income workers from dependence on housing benefit and associated high marginal deduction rates – which would help make work pay.**

Additional costs of working

All the above calculations are limited to changes in benefits and tax credits, and do not include the loss of passported benefits such as free prescriptions and free school meals. They also do not include the extra travel costs of going to work, costs of lunches and work clothes and potential childcare costs associated with working – all of which can completely wipe out any small gains.

21 *The New Deal for Lone Parents, lone parent work-focused interviews*, Cebulla, A; Flore, G; Greenberg, D, and *Working Families' Tax Credit: a review of impacts*, DWP research report 484, 2008

22 *The lone parent pilots after 12 to 24 months: an impact assessment of In-Work Credit*, Brewer, M et al, DWP research report 415, March 2007, *Work search premium, extended schools childcare, quarterly work-focused interviews and New Deal Plus for lone parents*

23 *Budget report 2008*, Chapter 4, HM Treasury

A full calculation of whether or not someone will really be better off depends on a number of individual circumstances and it is important that the full range of factors are accurately taken into account and explained to claimants. Lone parents often find, however, that the information they receive does not take full account of all the additional costs they might face.

A London CAB running a specialist debt and benefits advice project was helping a single parent with two children who had taken the step of moving back into the labour market, working as a self employed cleaner for 16 hours a week. Despite her weekly wage, her in-work credit of £40 per week, child benefit, tax credits and housing/council tax benefit, she found that going back to work had not been financially beneficial. She had got into rent arrears of over £500 and was worried that her family would be evicted. In the end she decided to resign from her job and return to claiming income support and full housing/council tax benefit, out of which she would have to repay her rent arrears.

For many families, the relatively small financial benefits of moving into low paid work can be almost entirely used up by suddenly having to pay for their child's school meals – an average cost of £9 per child per week²⁴ – particularly when the first payments have to be made before their first pay cheque has been received.

On top of that, other school costs will also increase, as there will no longer be help available for school trips (residential trips average from £120 at primary level to nearly £200 at secondary school²⁵) and where local authorities provide uniform grants, these are only available to households on out-of-work benefits.

A wide range of other financial costs will be incurred by a family when moving from reliance on benefits to reliance on a mixture of earnings, tax credits and benefits. These include higher transport costs, loss of transport concessions, loss of leisure concessions and having to pay for prescriptions. Furthermore, the lone parent will no longer have access to interest-free credit through the social fund budgeting loan.

A CAB in East London advised a lone parent who was struggling to afford all the costs of sending her children to school. She had recently come off income support as her working hours increased to 20 per week. As a result she was no longer entitled to free school meals for her two children. She also lost entitlement to help with school trips. She had just been asked for £200 for her oldest daughter's school trip to France and didn't know how she would be able to pay it without getting into serious financial difficulty.

Any increase in income is not only weighed against increased expenditure, but also the stress of juggling work and family life, and the loss of quality time available to spend with the children.

“Who is going to look after my children when I'm at work? You cannot take time off every time it's needed at school. If you use a childminder, you've still got to get them to the childminder on public transport which costs an arm and a leg (£1 each way on the bus and 70p for child, which is £3.40 return – that is over £10 a week). I don't want to get into any financial trouble and fall behind with my bills. I worry about being in debt and I don't like not being able to pay my way. You might only be £10 a week better off and you've got to organise a childminder and get the child to the minder. It's no incentive. It's not worth it

²⁴ *The cost of schooling*, DFES, 2004

²⁵ *Ibid*

and not worth the hassle of organising it. At the moment I feel the children need me.” **A woman with children aged 15, 10 and four years and living on income support since the break-up with her husband four years ago.**

Another woman interviewed was probably the most determined to work, despite having five young children. When the constant juggle to cope with children and her full time job became too much, she continued to work on a voluntary basis and was articulate at describing the trade-offs between work and benefits.

“I’d like to go on holiday but it is difficult on income support, so I want to work. I have just enough to live on. When you work you have other problems, everything to pay for, and nothing left over and no help with things like school meals. On income support you have help but you don’t have enough money. You earn more when in work but you don’t see quite enough to save some money for activities. What would make the most difference for me would be to be able to use the school club after school and in the holidays and have the school lunches paid for.”

We recommend extending entitlement to free school meals to families in receipt of maximum working tax credit. While local authorities in Wales and in some parts of England provide uniform grants to low income families on out-of-work benefits, **we recommend that all authorities should provide uniform grants and extend entitlement to all households in receipt of maximum working tax credit.** This would provide more sustainable support for families in low paid work than temporary measures such as the in-work credit.

We welcome the introduction of the in-work emergency discretionary fund but we do not think that this replaces the need for lone parents to be able to access social fund budgeting loans. **We therefore recommend that entitlement to budgeting loans is extended to households in receipt of maximum working tax credit.**

Working a few hours

The benefit system does not currently encourage lone parents to begin to work part time. They can only work three or four hours without losing any benefits, or they need to work at least 16 hours in order to be able to get financial support from the tax credit system.

Yet working a few hours or a day a week, in so called ‘mini-jobs’, can be a good way for parents to maintain contact with the labour market while caring for their children, particularly when they are very young.

The working hours of lone parents and mothers in couples are very different, even though their caring responsibilities may be similar. Mothers in couples – who generally have more choice about working hours – are much more likely to work eight hours. Lone parents are most likely to work four or 16 hours, four hours at minimum wage being the earnings limit for income support claimants and 16 hours, the minimum hours limit for working tax credit. This suggests that the working pattern of lone parents is being determined by the benefits system rather than by any strategic design to move into work in the longer term²⁶.

The Joseph Rowntree Foundation research found that increasing income disregards for income support, housing and council tax benefit would provide the best incentives for lone parents to work in ‘mini-jobs’. The research calculated that this could increase the lone parent employment rate by over five per cent.

Under special 'permitted work' rules, incapacity benefit and new employment and support allowance claimants are allowed to undertake work for up to 16 hours a week for up to 52 weeks, with a weekly earnings limit of £88.80, without affecting their benefit. Lone parents face many of the same barriers to work as incapacity benefit claimants. Changes could be made to the benefit and tax credit rules to enable lone parents to work part time, thus keeping in close contact with the labour market before their circumstances enable them to work 16 hours.

We recommend that the Government extend permitted work rules to lone parents to enable them to keep in touch with the labour market, by increasing the earnings disregarded, allowing people to keep all their earnings up to sixteen hours at the minimum wage otherwise, we recommend that the hours at which they become eligible for tax credits be reduced to eight.

A similar proposal is being promoted by the CREATE Consortium, which is campaigning to establish a new Community Allowance. This would allow people to be paid for small amounts of time spent on activities that support their local communities, without automatically losing their benefits. There are several advantages, in terms of social inclusion, work practice, community cohesion as well as the physical improvement to the local environment. The Green Paper, however, proposes that doing community work may become a condition for people to continue receiving benefits.

5. Inflexibility of the benefit system and money problems

The benefit system itself can act as a significant barrier to work for many lone parents. Many fear that change will put the family finances at risk. Families on low incomes do not have the savings to cover them through gaps in income as they wait for benefit claims to be processed or wages to be

paid, and can very quickly find themselves in debt. Other families already struggling to manage their debts fear that a change in their income will spoil their existing repayment arrangements. Bad experiences of debt when the benefit and tax credit systems fail to respond quickly to a change in work circumstances can damage their willingness to risk moving into work – or better paid work – in the future.

Three quarters of questionnaire respondents cited money and debt problems and potential benefits problems as key concerns when thinking about work. The following case illustrates the problems claimants can face if they are not given accurate advice and support to negotiate the benefit system:

A lone parent had been advised by the lone parent adviser that if she took a job for 22 hours at minimum wage she would get tax credits and still get some housing and council tax benefits. She should have been entitled to a four week housing benefit run-on but it was turned down in error and she experienced continuing problems with her claim. A summons for council tax arrears costing £45 had been issued just two weeks after the end of the run-on period (which would not have arisen if her claim had been properly processed). She faced considerable hassle chasing up her employer, getting payslips and trying to get the council to speed up her housing and council tax benefit claim. She would have had to pay the costs of the summons if the CAB could not get it waived. She does not feel the step into work has been worth it.

CAB evidence points to three main issues that need addressing if the complexity barrier is to be removed:

- Income gaps when wages or benefits stop before the other starts, when moving from benefits to work or vice versa.

- Complexity and failure of the benefits and tax credits systems to respond quickly to a change of circumstances resulting in overpayments of tax credit, housing benefit and/or rent arrears.
- Managing debt repayments.

Income gaps between wages and benefits

The transition to work from benefits can put families into debt as extra work-related expenses such as travel, childcare and school meals start immediately, but benefits stop and wages are usually paid in arrears.

“I found a full-time job .. but ... it failed because the first month they cut all my income. I had no income support but I had all my bills, rent, school meals, but no salary until the end of the month.”
Interviewee

Errors and delays in the processing of benefits cause significant problems for CAB clients²⁷. Short term work is a common and valuable experience for people with poor basic skills, and/or recurring illness. It can give valuable experience and income. Jobcentre Plus has worked hard to improve services and is now largely achieving its processing targets²⁸, but CAB evidence still shows problems for clients when benefits are not processed quickly enough, to the point that as people move in and out of work, some refuse work that may cause a prolonged break in their income.

“It’s very difficult to get income support and Jobseekers Allowance. I had to wait a long time when I lost my job and made a claim. It took a few months and they asked all sorts of questions. It took too long and when you want to contact them, they put you on hold. I incurred debt with my friends during this period and I’m still in debt and trying to repay it slowly. I can’t even afford to pay the TV licence fee so I sold the TV, rather than getting a fine.” **Vietnamese lone parent.**

Three of the four Vietnamese and Cantonese clients were dealing with debts incurred when their husbands had lost their jobs, followed by a few months’ delay in benefit payments.

Help may also be needed to access affordable credit, as low income working households lose entitlement to social fund budgeting loans. The story of one Horizons client highlights the financial risks of starting work and the need for support in financial management during the transition.

“She has faced two financial mini-crises since coming off income support. First, since her council tax arrears were no longer being paid through deductions from benefit, she faced bailiffs’ action for the amount owing. As an alternative, the adviser helped her to arrange with the council to make deductions from her wages. Though not ideal, this was preferable to incurring bailiffs’ charges. Secondly, her fridge broke down irreparably just before Christmas. Not being on income support, she had no recourse to a social fund budgeting loan, but was fearful of going into further debt via a catalogue or store purchase. Fortunately, we were able to secure her a re-conditioned fridge from a recycling charity.” **Horizons worker.**

Important steps have been made to reduce the incidence of debts arising from the transition to work:

- We welcome the four week ‘run-on’ of working tax credit which was introduced in 2007, which means that it can be paid for up to four weeks after a claimant stops work, to allow for delays in reporting and acting on the change in circumstances. However administration of this payment is currently causing problems for getting income support put into payment.

²⁷ *Not getting through: CAB evidence on the new system for claiming benefits from Jobcentre Plus*, July 2007

²⁸ JCP clearance for changes of circumstances for JSA claimants take on average 3.4 days against a target of 4 days, DWP figures, June 2008

- We also welcome the proposed roll-out of the In-Work Emergency Discretion Fund, which will be available for sudden financial needs which might otherwise threaten the lone parent's ability to stay in work. We consider however that it would have been better to extend entitlement to budgeting loans.
- We welcome 'In and out-of-work' pilots, which involve Jobcentre Plus sharing information across Government departments – specifically the HMRC tax credits service and local authorities (who administer housing and council tax benefit). This streamlines services for people moving in and out of work, and therefore encourages them to take work, even when they know it will only be temporary.²⁹

These pilots cover six areas of the country and only apply to Jobseekers Allowance claimants, and have been shown to increase speed of benefit payments by 15 per cent³⁰. **We recommend that these pilots should be extended to income support and employment support allowance, and rolled out nationally as soon as possible.**

Complexity of the benefit and tax credit systems

Tax credits form a vital component of the Government's strategy for tackling child poverty and making work pay. 1.7 million families now rely on working tax credit to supplement their working income and fund their childcare costs³¹. CAB evidence suggests, however, that the complexity of the tax credit system – together with the further complications people face when they rely on a combination of earnings, tax credits and means-tested benefits – create many problems for claimants, who find it difficult to understand their entitlement, and to keep up with changes.

Advisers report seeing clients who have chosen to give up part-time work in order to improve their financial stability because the present system is too complex and unreliable.

One adviser reported a woman who gave up her part time (16 hours) work when her partner was made redundant partly because of the complexity and confusion of their financial position. Housing benefit kept telling them different things about their assessment and they ended up in debt and only managed with financial help from her mother.

Another adviser described how one of his clients regularly faced bailiff action for council tax arrears and possession action for rent arrears because the systems could not keep up with each other. Eventually she gave up paid work with the plan of only returning when she could find full time work.

Low income households in rented accommodation may be claiming tax credits – run by HMRC, and also be dependent on help with housing costs and council tax through housing and council tax benefit, which are administered by local authorities. Both tax credit and housing benefit calculations take account of very similar information, including earnings, savings and childcare costs, but each system has different reporting requirements. The housing benefit system requires weekly reporting of changes. Tax credits are calculated annually and only require certain specified changes to be reported. For example, in relation to childcare, changes must be reported if they affect the annual average costs. So if a lone parent experiences a rise or fall in childcare costs in a week due to holidays or their child being sick, they may not have to report it to HMRC, but they will have to report it to the local authority as it

29 DWP, HMRC and North Tyneside District Council have been testing possible service improvements, *The Freud Report*, DWP, 2007

30 Jobcentre Plus presentation at DWP annual forum, July 2008

31 *Child and working tax credit statistics April 2008*, National Statistics 2008

may affect the amount of housing or council tax benefit they receive.

It can be extremely complex and time consuming for claimants to keep two systems updated with changes in income or childcare costs, which helps to explain why some households entitled to only a small amount in housing and council tax benefit often fail to claim, because it is not worth the administrative complexity for the relatively small gains. However, DWP research has highlighted that underclaiming of housing and council tax benefit was significant in relation to child poverty³².

Even if a person reports accurately, this complex administrative burden inevitably has an impact on the quality and efficiency of Government departments in responding to changes in individual circumstances. Failure by local authorities to keep up to date with reported changes can cause serious difficulties for families, as overpayments accumulate and/or rent and council tax arrears build up.

A single parent with two teenage children got into difficulty with her housing benefit when her work hours changed from around 31 to 16 hours a week. Her 19 year-old son also got a job for a couple of weeks. She informed the local authority of both changes, but it took several months to reassess her benefit. Things were further complicated by the fact that she had to continually report changes in her wages as she was trying to do overtime when it was available. She was careful always to report the changes, but processing delays resulted in constant over and underpayments which caused her budgeting problems and led to rent and council tax arrears. She was now being threatened with possession action, was very concerned that she might lose her home and was seeking help from her doctor for stress.

Recent CAB research³³ of housing association tenants facing court action for rent arrears suggested that tenants in work were more likely to incur rent arrears than those who were out of the labour market. Nearly half (43 per cent) of the clients in court for rent arrears were working, whereas amongst housing association tenants as a whole, only 34 per cent are in work.³⁴ This is consistent with DCLG research which found that:

“Increases in the level of serious rent arrears in recent years were in part due to rising levels of tenant employment which, due to its frequently low paid and erratic nature, paradoxically increased tenants’ vulnerability to serious rent arrears” .³⁵

It is extremely common for CAB clients to experience significant financial problems when they move from benefits into work as a result of complex and inadequate systems to subsidise their low pay. One interviewee told us:

“Recently we’ve had lots of confusion and problems which all stem from working tax credit from when he was working. They gave him some money they owed him from when he was working, when we were on income support, who then took it into consideration ...when we had this trouble, the council said we owed them £250 rent for this period or we were going to be evicted.” **Interviewee.**

A Horizons worker helped a lone parent who was working and receiving working and child tax credit.

“Her circumstances had changed over the year but on each occasion she informed tax credits and the local council as she understood that the changes would affect her housing and council tax

32 *Delivering on Child Poverty: what would it take?* A report for the DWP, November 2006, Harker, L, DWP

33 *Unfinished business – housing associations’ compliance with the rent arrears protocol and use of Ground 8*, Citizens Advice, 2008

34 *Survey of English Housing*, DCLG, 2005/06

35 *The use of possession actions and eviction by social landlords*, Pawson et al, DCLG, 2005

benefit entitlement. The local council took nearly six months to finalise her claim, which resulted in her almost being evicted for rent arrears. Having been paying the benefit since January 2007, they wrote to the client in June to say they had overpaid her. The client is exhausted and very frustrated. We are now helping the client make an appeal.” **Horizons Worker.**

Tax credits are key in the Government’s strategy to make work pay. Failure to receive tax credits will have a direct impact on the financial viability of returning to work.

“Ideally I want full time work and to be off benefits and I don’t want working tax credit because if within the first 12 months they say ‘We’re sorry we’ve overpaid you. You owe us £3,000’, I won’t be able to pay that back. They don’t realise there’s one wage earner and several children or dependents relying on that one wage and if I lose my money, I could lose my house.” **A lone parent with two teenage children.**

“It ... (a mix up with HMRC filling in the tax credit form) took six months to get sorted. That put me off applying for help with childcare, or help with anything.” **Interviewee.**

Although the system for recovering tax credits overpayments has been improved since its introduction in 2003, Citizens Advice Bureaux continue to see a steady stream of clients whose bad experiences of overpayment recovery make them reluctant to continue with their claims. Almost half of the respondents of a 2007 tax credit survey said that despite the credits being an important part of their income, their experiences made them less likely to claim again³⁶.

A similar concern was expressed by the Parliamentary Ombudsman in the second critical report of tax credit administration. The introduction of tax credits saw a dramatic increase in the number of complaints handled by the Parliamentary Ombudsman and the rate at which she upheld tax credit complaints was also much higher than for other complaints. Seventy eight per cent of complaints were partially or wholly upheld in 2004/05 and 90 per cent in 2005/06³⁷.

The proposed Welfare and Poverty Commission should examine the interactions of the benefits, tax, and tax credit systems with a view to simplification. Its remit would include:

- **Removing help with childcare costs from housing and council tax benefit and introducing a housing element in working tax credit, as recommended earlier. Both these steps would not only improve work incentives but reduce the administrative burden on families and administrators resulting from duplication of reporting.**

Managing existing debts

Existing debt problems can create a psychological barrier to work for some lone parents, since it can be impossible to consider any further changes in circumstances when overwhelmed by financial crisis. Evidence from the Horizons projects shows that getting existing debt problems under control can change a client’s attitude, often empowering them to consider starting or returning to work. Project workers see significant changes in clients’ outlooks after they set up affordable debt repayment plans. Learning to understand finances and prepare a budget is a further key step in preparing for work. The following case illustrates the range of support with debt that a lone parent may need at the point of transition from benefits into work.

³⁶ *Tax Credits: the current picture*, Citizens Advice, September 2007

³⁷ *Tax Credits: getting it wrong*, HC 1010, October 2007

A 25 year-old lone parent supported by the Wolverhampton Horizons project had two children aged three and 11 months; she had just gone through a divorce and had a range of debts. Her pressing concern was her rent arrears; she had received a letter from her landlord advising that he was considering eviction proceedings. She was given an appointment to see a housing specialist and her housing issue was resolved without the need for legal action.

She was also referred to a debt caseworker who helped her arrange nominal £1 offers to the creditors of her non-priority debts. She was helped to set up a budget sheet and make payment plans for keeping on top of her future bills.

She later returned as she was considering part time work and wanted to know what benefit help she would be entitled to. The adviser completed a 'what if' calculation but it showed that the client would not be any better off, as she only wanted to work eight hours a week and therefore would not be entitled to working tax credit. With this information she went away to consider whether she could look for a job working 16 hours a week.

In another case, a lone parent visiting a North Liverpool CAB was helped initially to apply for a community care grant to help her set up home after fleeing domestic violence and went on to take part in a financial capability course. She told the trainer that the session had "given her the skills and confidence to deal with financial things that she had, up until this point, avoided". She then discussed work options and her ambition to become a hairdresser. The project was able to help her find an appropriate course and remained in touch with her

to support her through her training, helping her with grants for equipment.

When someone does move into work, repayment arrangements for existing debt will often need changing as creditors demand higher payments. Boosting an individual's financial capability can increase their confidence to consider changing their circumstances, and might include **leaving** low paid work to take up training.

Eighteen months after seeking help with debt problems, one lone parent with a range of issues was still being supported by her bureau. She had £5,000 of non-priority debts and was helped to complete a financial statement to send with offer letters to creditors. She was working part-time but very unhappy with her job. She had left school without qualifications and was interested in getting back into education. The bureau adviser helped her explore the options available to her and carried out calculations to assess her benefit entitlement if she did not work. She returned a few months later having had offers of repayment accepted by most of her creditors. She needed help updating her financial statement as she had given up her job and was claiming benefits because she was enrolling on a college course in September.

The Government clearly recognises debt as a barrier to work – New Deal programmes, for example, have included voluntary referral to debt advice. The 2008 Green Paper, however, suggests a requirement to seek debt advice might be included where relevant in the six month or third stage action plan, with a potential sanction for non-compliance. **We recommend that claimants with debt problems be referred to support as soon as possible in the claim process – and not under threat of sanction.**

Breaking down the barriers – conclusions and recommendations

Our research found five key barriers to work for lone parents:

- Inflexible jobs and employers.
- Lack of access to affordable childcare.
- Inadequate support in making the transition to sustainable work.
- Being financially worse off in work than on benefits.
- Inflexibility of the benefit system and money problems.

This report shows that the Government is aware of all these problems, and we have examined some of the recent measures designed to address them. We welcome most of them, but feel that the Government does not go far enough, and is applying the wrong emphasis. The latest welfare reform proposals include a number of measures to help lone parents into work, but we are concerned that they are inappropriately tied to increased conditionality, and also that the resources will not match the aspirations of the latest Green Paper. **We particularly emphasise the need for training to ensure that Jobcentre Plus advisers are fully equipped to support the proposed reforms.**

On employers, we welcome plans to extend the right for parents to request flexible working along with the Government's attempts to work with employers through the Local Employment Partnerships scheme, but are concerned about the engagement of smaller businesses, especially in a declining economy. **We recommend joint efforts between DWP and BERR to raise awareness of employment rights, and to improve enforcement mechanisms for vulnerable workers.**

On childcare, we welcome the requirement for local authorities to provide sufficient care, but we support the recommendations of the Daycare Trust which would make childcare free to many more low income households.

Our evidence suggests that lone parents do not always receive comprehensive advice on how the transition to work will affect their finances. **We recommend a joint approach across DWP, HMRC and local authorities to ensure that all relevant advisers are trained to maximise household income by promoting take-up of all benefits regardless of which department delivers them.**

We acknowledge that the Government recognises the need to make work pay but the current system too often gives help through one mechanism and withdraws it through another. **We recommend a holistic look at the interaction of the tax, tax credit and benefit systems to ensure more sustained financial incentives over the long term.**

It is now well recognised that the complexity of the tax, tax credit and benefits systems acts as a barrier for many people trying to return to work, and we therefore support the calls from both the Work and Pensions Select Committee and the Treasury Select Committee to set up a Commission which would review the welfare system across Government, with a view to simplifying the tax and welfare system and ensuring that work pays.

Annex A: Key Jobcentre Plus employment support for lone parents

- **New Deal Plus for lone parents:** A voluntary programme specifically designed to help lone parents into work.
- **Work-focused interviews:** All lone parents who have a youngest child aged 13 or under have to take part in six monthly work-focused interviews. The frequency increases to quarterly in the year before they lose entitlement.
- **Job interview guarantee:** For every lone parent who is looking for and ready for work.
- **Work trials:** Giving lone parents (and other unemployed customers) the opportunity to try out a job for up to 15 days without having to give up benefit.
- **In-work credit:** Paid at £40 a week (£60 in London) for 52 weeks to lone parents leaving benefits for work of 16 hours or more and also to couple parents in London who are in paid work of 24 hours a week.
- **In-work emergency discretionary fund:** Provides financial help to lone parents for the first 26 weeks of their employment, to overcome any unexpected financial barriers which might otherwise prevent them from remaining in their jobs.

- **In-work advisory support:** From Jobcentre Plus Advisers for all lone parents in their first 26 weeks of employment to help resolve any difficulties, and direct individuals towards any support needed such as skills and training.
- **Upfront childcare fund pilot:** In London provides financial support to lone parents to cover advance childcare costs such as registration fees, deposits and advance payments.

Pilots

- **In-work retention pilot:** A two-year pilot to test the effectiveness of using In Work Credit as an aid to job retention and progression. After a period of weekly payments to support the transition into work, lone parents will receive lump sum payments if they attend further meetings with a Personal Adviser.
- **Better-off in-work credit trial:** To ensure that lone parents (and customers on Jobseeker's Allowance and incapacity benefit) are at least £25 a week better off in work than they would be on out-of-work benefits. If successful, this will be extended in 2009.

The service aims:

- to provide the advice people need for the problems they face
- to improve the policies and practices that affect people's lives.

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone on their rights and responsibilities. It values diversity, promotes equality and challenges discrimination.

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