Benefit changes could help 100,000 lone parents into work at relatively low cost

Changes in the benefit regime for lone parents could have a significant impact on the number who chose to take up jobs and could help reduce child poverty, concludes research funded by the Joseph Rowntree Foundation and published today.

The research suggests that allowing lone parents to keep more of their benefits when they move into work could lead to an increase in the lone parent employment rate of up to 5.4 percentage points, equivalent to 100,000 people. At present, 57 per cent of the UK’s 1.9 million lone parents are in employment, but the Government has set a target to have 70 per cent in work by 2010. To help meet that target, it is currently consulting on proposals for more intensive job search for lone parents whose youngest child is aged seven.

Kate Bell, one of the authors of the report said:

“This is a small change that could make a big difference. At present, the tax and benefit system makes it very difficult for lone parents to work in jobs of less than 16 hours a week. Mothers in couples are much more likely to choose to work fewer than 16 hours a week in order to combine paid work with caring for a family. Many lone parents would also like to have this choice.”

Mike Brewer, one of the authors of the report said:

“Allowing lone parents to keep more of their benefits when they move into work would encourage some lone parents to take up employment at a cost that compares well with previous reforms, and would be well targeted on those who currently face the weakest work incentives. Such a change could play a major role in helping the Government increase the lone parent employment rate in order to reduce child poverty.”

The report examines several reforms to means-tested benefits and tax credits, and concludes that the most effective would be an increase in the earnings disregards in all means tested benefits. Provided that take-up of Housing Benefit and Council Tax Benefit improved among working lone parents, an earnings disregard set so that 16 hours’ work a week at the minimum wage led to no reduction in means-tested benefits could cost the Government £790m a year, and increase lone parents’ employment rate by 5.4 percentage points. This would equate to a cost per job of £7,900, far lower than that of around £25,000 for Working Families’ Tax Credit (we do not yet have robust estimates of the cost per job of the new tax credits that replaced the WFTC in 2003).

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Notes to Editors:

1. The Report will be available to download from the Joseph Rowntree Foundation’s website (www.jrf.org.uk) at 00.01 on Wednesday the 3rd of October.

2. Compared to not working at all, a lone parent with one child earning the minimum wage and who is eligible for Housing and Council Tax Benefit is around £20 a week better off if he/she works 4 hours work, around £24 a week if he/she works 15 hours a week but around £44 a week if he/she works 16 hours a week. This helps explain why only 4% of lone parents work between 1 and 15 hours a week, compared to 10% of mothers in couples.

3. The report uses a model of lone parents’ labour supply behaviour, developed by researchers at the Institute for Fiscal Studies, to predict the response to various reforms. This model has previously been used successfully to evaluate the WFTC.

4. By 2002/3, the amount of Working Families’ Tax Credit (WFTC) spent on lone parents was around £2.5 billion a year more than its predecessor, family credit, in today’s prices. Previous research has estimated that WFTC increased the lone parent employment rate by 5 percentage points, or around 100,000 lone parents. Therefore the cost per job for lone parents is around £25,000.

5. The research was funded by the Joseph Rowntree Foundation, and carried out by researchers from the Institute for Fiscal Studies and One Parent Families|Gingerbread. The Joseph Rowntree Foundation is one of the largest social policy research and development charities in the UK. It supports a research and development programme that seeks to understand the causes of social difficulties and explore ways of overcoming them. One Parent Families|Gingerbread is the national charity supporting Britain’s 1.9 million lone parents and the 3.1 million children who live with them. More information is available at www.oneparentfamilies.org.uk