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The 2013 Comprehensive Spending Review and the implications for making work pay and family poverty

jobcentreplus

About this research

To cut the deficit, the UK government has increasingly turned to cuts in working age welfare. To date, it has operated a 'salami slicing' approach: cutting or capping out of work benefit entitlements, in-work tax credits and Child Benefit. This has been combined with dis-entitling some groups from benefits through tougher testing or changing the rules of entitlement, for example limiting access to some disability benefits to a year where the person has some other income sources and removing Child Benefit for better off families with children. At the same time, those claiming out of work benefits face the threat of more severe sanctions where they fail to comply with stringent job search requirements. This Policy Brief, by two leading labour market and welfare reform researchers at the University of Bath (Professor Paul Gregg and Dr Susan Harkness), examines two of the latest developments in Coalition policy that were announced in the 2013 Comprehensive Spending Review (CSR): extending the period between leaving work and being entitled to receive benefit payments; and extending restrictions on benefit for lone parents to those with younger children. The Policy Brief assesses the implications for future developments in the area of welfare reform.

The latest round of cuts announced in the 2013 CSR consolidates reforms that have already been taking place to the welfare system under the Coalition government. The key developments and emerging issues are:

- Welfare cuts and changes to benefit entitlements have increased conditionality and lowered the incomes of those in receipt of both out-of-work and in-work benefits.
- Families with children, and in particular lone parent families, whether in or out of work, have been particularly hard hit by these reforms.
- Despite rhetoric about making work pay, the Coalition Government has to date pursued a 'work first' policy which has paid little attention to issues of job quality or retention, and which comes with particular risks and costs for those who regularly transition into and out of insecure work.
- These risks will be further exacerbated by the proposal to extend the period that those who lose their jobs are required to wait before making a claim for benefit (from 3 days to 7 days). This will disincentivise work for some, in particular those offered short-term or low hours work.
- The 'work first' model is increasingly at odds with the recognition that the rapid rise of working poverty among families with children is associated with low wages, and especially low hours of work. This may mean that the gains in well-being seen for mothers and children in lone parent families, over the period of New Labour's reforms to the welfare system, will now be reversed.
- Universal Credit, which starts to come into operation this Autumn, will reinforce this picture, with strong financial rewards to working a few hours but with very weak incentives to work more, especially for a second earner in a couple.

Extending the period before benefit payments are made: issues and implications

The Chancellor announced the latest steps in the government's welfare reform strategy in the 2013 CSR. Those making new claims for unemployment benefits will no longer get any financial support for the first week of their claim. There are around 300,000 new claims every month, so paying no money for the first week of unemployment would result in significant savings. However, the main cost of this policy is likely to be the impact on 'making work pay'. To determine the efficacy of policies to make work pay, researchers calculate the value of work in a week compared to what a person receives in benefits. Through tax credits the last government made big strides to improve the value of work when a person worked at least 16 hours. The current government, with its planned Universal Credit system, will sharply improve the value of working shorter hours, albeit at the cost of discouraging longer hours and having a second earner in the household. However, their calculations do not consider the costs associated with making a transition into and out of work. Each time such a move occurs, benefits and tax credits need to be recalculated and people find themselves with no benefit income, whilst waiting for their first pay cheque.

The financial problems people face, when moving into and out of work, acts as a major barrier to taking insecure or uncertain work. A key positive feature of Universal Credit, if it works as promised, is that it will get all elements of a person's benefits re-assessed within a month. Such certainty would make taking a chance on insecure work a better bet, but disorienting people for the first week of a new claim runs entirely counter to this. The problem is that going back to work involves such a high risk to financial security that people prefer the certainty of benefits to insecure employment. If only one week of work is available, taking it would result in the loss of two weeks benefit. Taking one month of available work means five weeks lost benefits. Only work that is reliably long lasting or well paid becomes worth it. Although this change is modest, it is only a few days, it may well be the start of something bigger. This has been a trend in the US, aimed at saving money, and the period of non-payment following the loss of a job can extend for months. Clearly some groups will be more affected than others. Mothers, particularly lone mothers, have much higher rates of job exit than other workers and will be particularly vulnerable. The risk here is that this measure undoes one of the big wins that the governments Universal Credit could deliver, reducing the costs and uncertainty of a move into work.

Lone parents, the extension of benefit conditionality and family poverty: issues and implications

For lone parents, the proposal to extend the period of time before benefits are paid coincides with a set of policy reforms that provide a further push towards the labour market. The 2013 CSR announced an extension to benefit conditionality for lone parents with children aged between 3 and 5, who are now expected to prepare actively for work. In practise this will mean “regularly attending their Jobcentre, gaining qualifications and taking other steps to improve their readiness to work” (HMT Spending Round, 2013, p26), and the prospect of sanctions for non-compliance. Those with children over 5 have, since 2012, been expected to look for work as a condition of benefit receipt. However, recent announcements will make job search requirements more stringent, with those out of work now required to attend the job centre weekly rather than fortnightly, as well as those who ‘do not earn enough’ (normally defined as less than the earnings that would be received for working 35 hours a week at the minimum wage, or £217 a week, but adjusted for those with caring responsibilities). Those who do not comply are to face greater penalties.

These changes represent a step-change in the way the benefit system treats lone parents. Earlier waves of welfare reform, between 1999 and 2008, emphasised the choice between work and care, by providing increased support for lone parents who wanted to move into work, ensuring that work always paid, and at the same time increasing benefit levels for those out of work. In contrast, current policy and recent announcements in the 2013 CSR emphasise a ‘work first’ approach to welfare, by focusing on getting lone parents into any work. Yet high rates of job exit remain a substantial barrier to raising overall employment rates – lone mothers leave jobs far more frequently than other workers, with 1 in 5 leaving employment in any year, and among those who take up a job, the chance of not being in work a year later is similarly much higher (Gregg, Harkness & Smith, 2009).

Improving job retention requires raising job quality, something that a ‘work first’ approach does not allow for. Already, as the expectation that lone parents should find work has grown, the incomes of those both in and out of work has been falling (Harkness, 2013). There have been significant cuts to both benefit levels and tax credits, and, as the Family and Parenting Institute has pointed out, lone parent families are among the biggest losers from these changes. For those in work, alongside the shrinking value of tax credits, support for childcare in the tax credit system has fallen; and across the economy, real wages are falling (see IPR Policy Brief - What a drag: the chilling impact of unemployment on real wages). Lone parents, who are overrepresented in the public sector, are likely to see their earnings squeezed further in the coming years, as measures announced to further limit public sector pay take effect.

Just before the CSR, Gingerbread (2013) had noted the sharp rise in poverty among lone parents working part-time. Over a period of just one year, the incidence of poverty grew from 1-in-4 part-time working lone parents to 1-in-3. As the UK moves towards an increasingly punitive system of welfare provision, with conditionality being applied not only to those out of work but also to those who work but ‘do not earn enough’, and as longer hours of work are increasingly needed to lift lone parents out of poverty, the negative consequences that have been associated with welfare reform in the US are increasingly likely to be seen here. In the US, welfare reform, while successful in raising overall employment levels, did little to improve the incomes of lone parents or to reduce poverty rates. Furthermore, a growing number of lone parents fell down the cracks between work and welfare, receiving neither a wage nor support from the state (Blank and Kovak, 2008). Moreover, the evidence suggests that the consequences of welfare reform for children were not always positive – among adolescents for example full time work was associated with reduced parental supervision and a rise in behavioural problems. Up until now, reforms to the welfare system in the UK have, on the other hand, been associated with better outcomes for parents and children, particularly where mothers work part-time (Gregg, Harkness & Smith, 2009).



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