Make it work for single parents

Struggling to make ends meet

Single parents and income adequacy under universal credit

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Introduction

From 2013, universal credit will start replacing the present benefits and tax credit system as the main financial support for families on low incomes. Single parent families are highly dependent on such support to make ends meet, whether they are in or out of work. To what extent will the new system meet their needs?

The new system has a number of features that could potentially help single parents. It will be simpler overall than the present system, reducing the confusing array of entitlements and forms to fill in. It will offer new opportunities to improve family income through part time work, allowing single parents to keep some or all of their out of work entitlements when they work a few hours a week. And it will reduce some of the most severe barriers to improving family income, in particular the most extreme situations where families can currently lose over 90 per cent of additional earnings through a reduction in benefits combined with higher income tax bills.

However, ultimately the extent to which the system helps single parent families lift themselves out of poverty and achieve an adequate standard of living will depend on the level at which entitlements are set. In the past two years, there have already been significant cuts to both benefits and tax credits, and many of these will be carried over into universal credit. The system is coming in when, like many people in Britain, single parents are generally seeing living costs rise at a faster rate than earnings (or state entitlements). The combination of these factors makes it inevitable that, even with the help of universal credit, many families will struggle to make ends meet.

This paper gives an initial snapshot of how provisional universal credit entitlements (announced as illustrative figures for 2012/13, the year before its introduction) compare to families' needs. In particular we seek to illustrate the impact of universal credit on:

a) Work as a route out of poverty and towards an adequate income level – will it support working single parents to lift their families above the poverty line, and will it support them to reach an adequate level of income for their needs?

b) Work incentives – will it make a single parent better off in work than not, and will it be worthwhile to work additional hours?

Given that we do not yet know the exact level at which the credit will be set, it cannot project the precise outcomes of the system. Rather, it sets the scene for monitoring the adequacy of universal credit by doing three things:

- Looking at a general level at the ability of single parents with various hours of work and wages to escape poverty and reach a minimum acceptable income level
- Considering which factors will most affect the adequacy of universal credit. It makes comparisons between single parents with more or less expensive housing and childcare, and different numbers and ages of children
- Considering the effectiveness of different policy measures in improving the situation of single parents under universal credit, to help understand what future improvements could best produce stronger work incentives – and therefore a more adequate living standard – for single parents and their children.

Universal credit, the poverty line and a minimum acceptable income

In thinking about the adequacy of state support, a crucial issue has been whether it helps lift families with the lowest incomes out of poverty. Improvements in benefits and tax credits in recent years contributed to a reduction in child poverty of about a third between 1998 and 2010. However, four in ten children in single parent families continue to live in poverty (defined as living in households with below 60 per cent median income, net of housing costs). Even among those whose parents work, a fifth of children of single parents who work full-time are below the poverty line, as are a quarter of those whose parents work part-time.

Poverty is a complex issue, and it is widely recognised that a number of indicators are useful in understanding and measuring it. The Child Poverty Act 2010 commits the government to measuring relative poverty, material deprivation, persistent poverty and absolute poverty. Additionally a number of broader measures (such as educational attainment or health outcomes) help inform understanding of related aspects of wellbeing. However, the relative poverty measure is the accepted international indicator employed by the OECD and the EU, and is generally accepted as the headline income measure.

Another threshold to which family income can be compared is the Minimum Income Standard, an annually updated measure of what households need to achieve an acceptable standard of living. This is not presented as a measure of poverty, but as a measure of whether families have an income adequate to participate in society. Based on continuing research into what members of the public think is enough, it can be seen as a socially defined minimum.

In the long term, the Minimum Income Standard is affected by social norms, which may cause the minimum to rise as society becomes more affluent. However, in the current economic downturn, it has not fallen, because members of the public do not in general think that needs have gone down

(Davis et al, 2012). The UK is currently experiencing a period in which, because general incomes have been falling, some families may be getting poorer in absolute terms even though their income relative to the average is not declining. As a result, the gap between the poverty line and Minimum Income Standard 'adequacy' line has widened. For single parents, it is now about 30 per cent above the poverty line, compared to just over 20 per cent when the Minimum Income Standard was first calculated in 2008.

In this analysis, we present comparisons against both the poverty line and the Minimum Income Standard. This illustrates both how effective universal credit is likely to be in lifting working single parent families out of poverty, and then shows how easy (or not) it will be for these families to raise their income further in order to reach a decent standard of living.

It is important to note that the comparisons made below are illustrative of relationships between universal credit, earnings, costs, poverty and income adequacy, rather than showing the precise range of outcomes. The actual distribution of income is influenced by a complex array of individual circumstances, and also by the extent to which families take up their entitlements (which are assumed below to be taken up fully).

Income adequacy for single parents

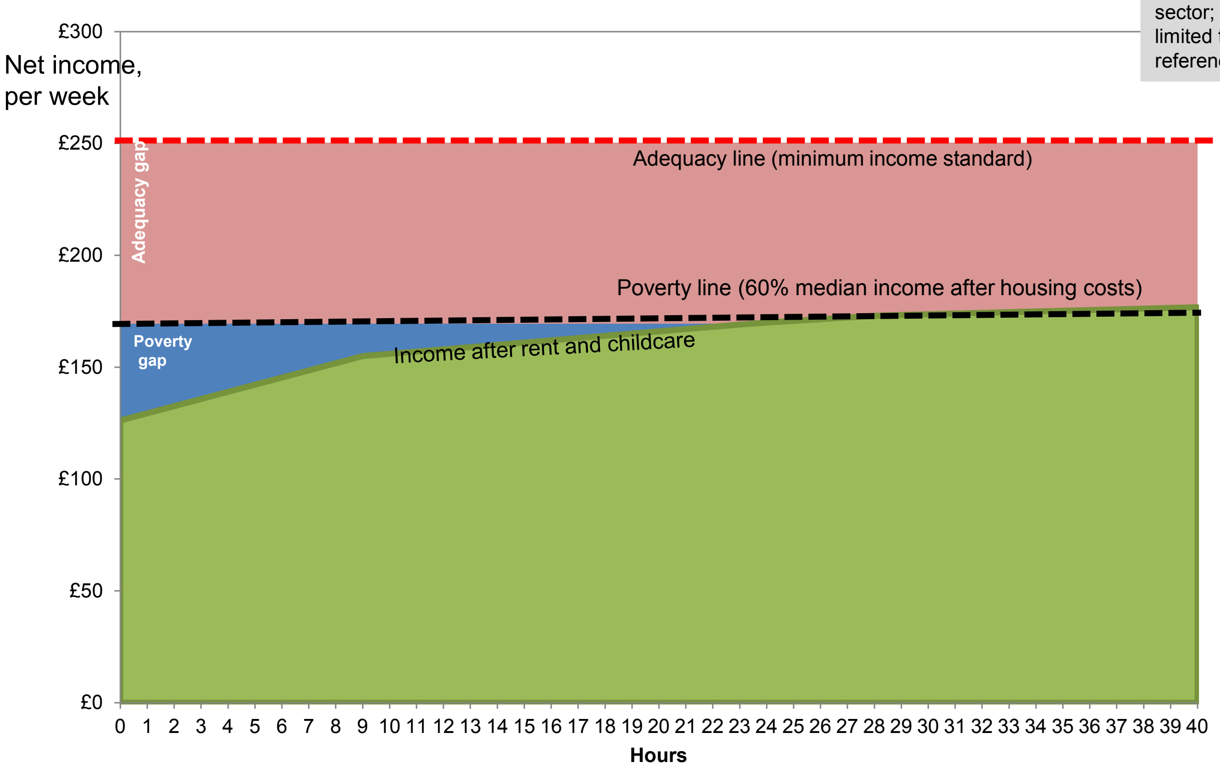
Figure 1 illustrates the level of a single parent's "net" income, working various hours on different wages. The income level shown is what a single parent has left in disposable income after taxes and benefits/credits, and after paying housing costs and childcare fees: in other words, the money available for everyday expenses.

Figure 1 takes the example of a single parent with a one year old, who rents a home privately, who can get some but not all of their rent reimbursed through universal credit, and who has average childcare costs. This serves to illustrate the extent to which work, in combination with universal credit, can help to raise the living standards of single parent families. It shows how this picture differs for a parent who can only get a minimum wage job at £6.19 an hour, and one who can get a much better job – on the median wage of £11.15 an hour (about £22,000 a year full time).

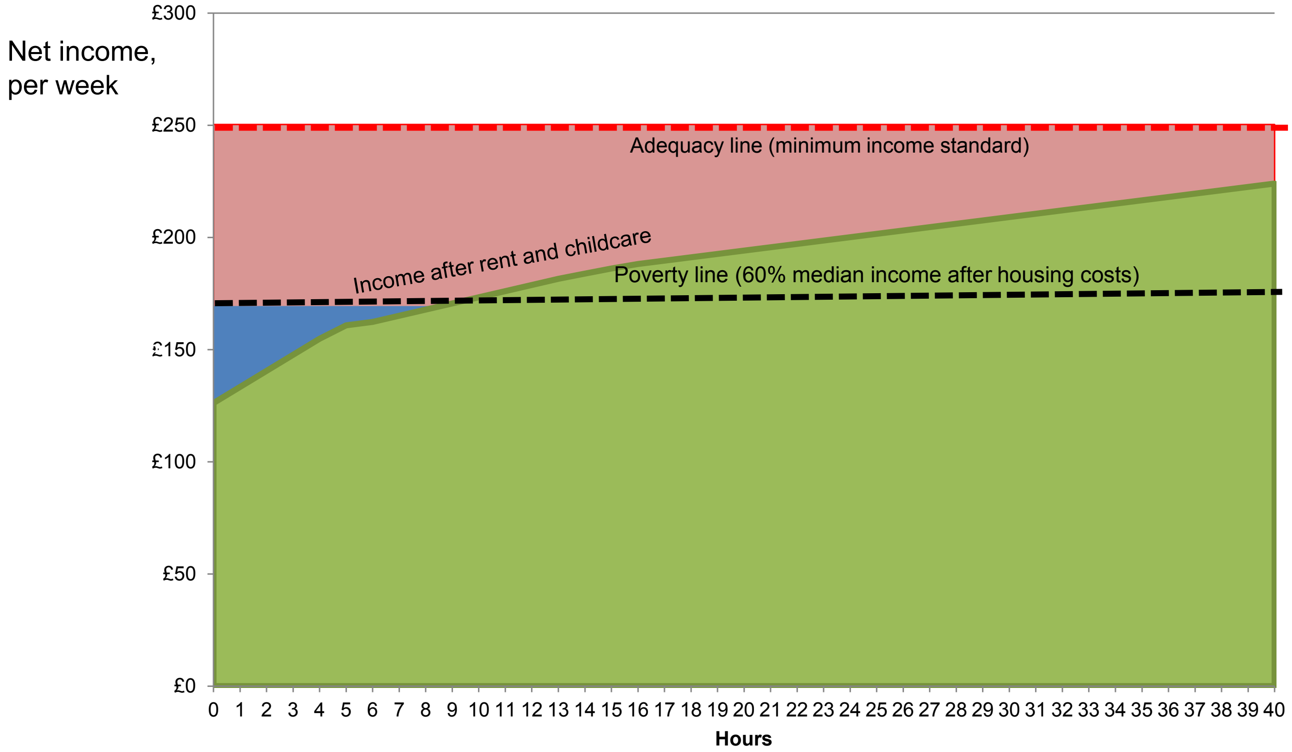
Figure 1 – Income adequacy for single parent
With one child age 1, 2012: on projected levels of Universal Credit

Assumptions
-When parent working, child attends childminder, charging average fee
- Rent is median for two-bedroom rent in private sector; UC reimbursement limited to average LHA reference rent

a) On minimum wage (£6.19/hr)



b) On median wage (£11.15/hr)



Without any earnings, the family is around £43 per week below the poverty line. It has only about three quarters of what it needs to escape poverty, and only about half of what it needs for a minimum acceptable income.

Once a single parent starts earning, this changes significantly. Even on the minimum wage, the first 9 hours of work closes about two-thirds of the gap between the family's disposable income and the poverty line.

This is helped by the fact that under universal credit, this single parent will be able to keep all of their first nine hours of wages every week[1] (although some of this extra income is subtracted from the net income calculation because it is required for childcare).

What is notable, however, is that a parent on the minimum wage cannot increase family income by very much by working more than about ten hours a week. Typically, for every additional hour worked, earning £6.19, the family only gains about £1.50 in income, with the rest being lost in reduced universal credit and higher tax and national insurance contributions. Furthermore, assuming that working an extra hour means needing an extra hour of childcare, this reduces net income by about another £1, leaving less than 10 per cent of additional wages in the family purse.

This creates a "plateau" of income, which typically will keep low-wage families close to the poverty line regardless of hours worked. In the case shown here, the family would just escape poverty by working full time. A similar family with older children requiring less childcare, or whose housing costs are fully covered by universal credit, may escape it with fewer working hours, but one with higher than average childcare costs may not do so even working full time. In either case, there is no prospect of getting to a truly adequate standard of living, shown by the higher line, on the minimum wage, and no prospect of seeing the rewards from work genuinely increase as more hours are worked.

Figure 1 makes a number of assumptions about family composition, housing and childcare, which influence these results. Larger families, for example, can find it harder to increase their income through taking on more hours of work, while those with children whose childcare needs are provided partly through free early years education or school, or who are too old to require childcare, can find it easier. Housing costs are also a crucial factor, with some families (particularly in social housing) being more adequately provided for than the private tenant example in Figure 1, while on the other hand some home owners find it harder as they will receive little or no support for their housing costs from the state. In addition, income adequacy can be strongly affected by high childcare rates, which can reduce significantly the disposable income of working families. The following three sections review how varying family composition, varying housing costs and varying childcare costs can affect income adequacy for single parents.

1 Or almost all: council tax benefit, which will be administered separately by local authorities, may start to be withdrawn as soon as a family starts earning, and this is the policy that has been assumed in the calculations shown here – so the family initially loses 20p in the pound of earnings.

Example 1 – The adequacy trap working 30 hours a week on a minimum wage[2]

Gill lives in Chelmsford and works 30 hours a week as a nursery assistant to support her two daughters aged 7 and 3. Her situation illustrates the adequacy trap that makes it impossible for single parents on low wages to have enough to afford a minimum socially acceptable standard of living.

Gill is paid the minimum wage, earning £186 a week – about £9,700 a year. She rents from a private landlord, and the £200 a week that she pays for a two bedroom house is over the eligible limits of universal credit by £53 per week. For childcare she pays a bit more than the out of London average, since she lives in the expensive south east: it costs her a total of £140 a week, for which she gets 70 per cent (£98) added to her maximum universal credit.

After paying tax, housing costs and childcare, Gill has £206 to support her family on every week. This puts her £4 below the poverty line, and £132 below the Minimum Income Standard. Were she to take on more work, say a second job working seven hours at the minimum wage, and to increase her childcare hours proportionately, she would end up no better off, since her income gains would be almost exactly offset by higher childcare costs. Similarly, if she reduced her work by 7 hours and used less childcare, she would be no worse off. In other words, regardless of such adjustments to her working patterns, Gill is stuck on an income that is under two thirds of what it costs to buy the minimum that her family needs, according to the Minimum Income Standard research, and which falls just below the official poverty line.

[2] Gill, like the other examples in this paper, is a fictional person, but with details that draw from real case studies identified by Gingerbread.

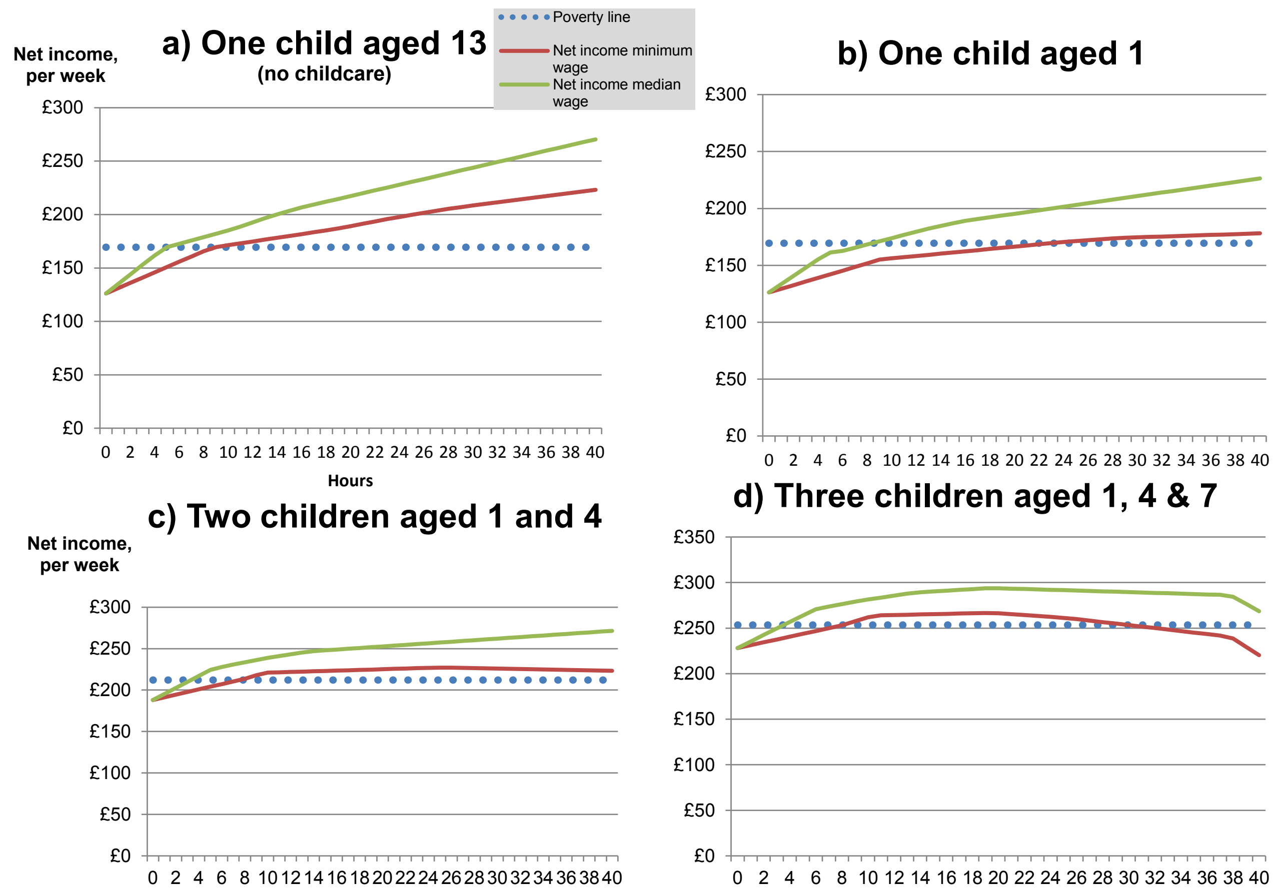
The age and number of children

As any single parent – or indeed any parent – knows, life can be tougher with more children or with children of different ages. Even though universal credit will give more to larger families and to those with higher childcare costs (up to a maximum amount), it will only partially compensate them for additional costs arising from family composition. For working families in particular, having more children will continue to make life tougher.

In particular, the high cost of childcare, and the fact that it is not fully covered by universal credit, traps many families with young children close to the poverty line regardless of how many hours they work.

The effects of the number and age of children in a single parent family can be illustrated by comparing the four parts of Figure 2. Using the same assumptions about the level of rents and childcare rates as in Figure 1, this shows contrasting situations for various types of family.

Figure 2 – Escaping poverty through work with different combinations of children
2012: on projected levels of Universal Credit (assumptions as in Figure 1)



The top half of Figure 2 (Figure 2 a) and 2 b)) compares two cases of a single parent with one child – one in secondary school and the other a toddler. The extra cost of having the toddler looked after while the parent works limits the net income of the latter family more drastically than the former. As we have seen, with a low wage, a family needing childcare may be little better off working full time than working part time.

Figures 2 c) and 2 d) show that, for families with more than one young child, this situation worsens, and even families with a decent wage of over £11 an hour can end up little better off – or even worse off – working longer hours if they have to pay for additional childcare. Where there are three children requiring some kind of childcare (including after school and holiday care for primary school age children), working more hours can actually result in net income decreasing, even to the point where the family is pushed back below the poverty line. In Figure 2 d), as soon as the parent works hours long enough to require after-school care for the third (oldest) child, the additional cost of paying a childminder exceeds the net additional income received from each extra hour of work, even at the median wage. A full-time worker in this situation would require childcare above the £1300 per month family limit available for support in universal credit, and the cost of some wholly unsupported childcare – in addition to having to cover 30 per cent of childcare costs even within the eligible limit – would push the family into poverty.

The effect of housing costs

Universal credit covers some or all of the housing costs of families renting their homes. The inclusion of these costs in the credit replaces housing benefit for working age families. As with housing benefit, however, families with high rents may not have all of their rent covered. In particular, limits are set on the coverage of private sector rents based on the local rental market. In principle, the limits are set at the 30th percentile rent for the local area – that is, support (through housing benefit now and through universal credit in future) is capped at a rate which would cover only the lowest thirty per cent of rents in the local housing market. In practice, however, many single parents find themselves unable to rent at this level. In fact, having rents at or below these limits has become the exception rather than the rule: only about a third of those claiming Local Housing Allowance are in this situation.[2]

For this reason, the comparisons made in this paper assume that single parents have rents somewhat above the maximum amount payable through universal credit. In practice, some families will be in a better position than this and others in a worse position. A quarter of single parents own their homes with mortgages. Universal credit will in some cases provide help paying mortgages, but only to those who are not working. Even where support is paid to help pay a mortgage, this will not generally cover the full amount, will involve a waiting period and will be time limited. Having to pay even a modest mortgage without extra help can leave families in deep poverty. On the other hand, the 40 per cent of single parents living in social housing will generally get all of their rent paid if they do not work, and if they work and do not earn above a given threshold (above which this support is tapered away).

Figure 3 illustrates the situation of single parents in three different housing situations. The worst is having to pay a mortgage without help from the state, either because the family is in a “waiting period” before such help is received or because it has used up the time limit on how long it can be paid for, or because they are working and therefore ineligible for any such support. In such a situation, a non-working family will be in deep poverty, whose depth will depend on the size of the mortgage. One significant feature of universal credit for such families is that earnings from work do improve their situation rapidly – more so than is the case under the present tax credits system. This is because anyone not receiving housing assistance is allowed to keep a high amount of earnings before starting to lose universal credit. A single parent would not start having the credit withdrawn until they earned £173 a week in the illustrative figures given for 2012. Nevertheless, with £500 a month in mortgage repayments, as shown in Figure 3, the family would still have a net income below the poverty line working full time on the minimum wage.

In contrast, someone paying a social rent, covered fully by universal credit, would be able to escape poverty by working only a few hours a week. But for families receiving housing support, the “plateau” effect by which rising earnings are balanced by lower support through universal credit – kicks in relatively early. Hence the better that housing is supported, the easier it is for a working single parent to escape poverty initially on entering work, but withdrawal of this support as work and income increase tends to cap family income not far above the poverty line.

Figure 3 also shows that non-working and low-earning private tenants tend to be significantly worse off than social tenants, to the extent that private rents are not fully covered in universal credit. This underlines the importance of rent levels to the living standards of single parents on low incomes. In the past 25 years, as rents both in social housing and in the private sector have risen in the UK, low income families have to some extent been shielded from the effect of this rise by housing benefit. Now, the protection afforded by this benefit is being significantly weakened, leaving families vulnerable to footing an increasing proportion of a rent bill that is very high relative to their disposable income.

3 DWP Research Report 798, 2012: Monitoring the impact of changes to the Local housing Allowance system of housing benefit: Summary of early findings

In future, as social rents are allowed to rise further towards market rent levels, this phenomenon is likely to affect those in social housing as well as in private housing. It will particularly affect people living in high rent (and high rental demand) areas such as London and the South East.

Figure 3 – Escaping poverty in different housing tenures
Single parent with child aged 1, 2012: on projected levels of Universal Credit

Example 2 – Pressure to work full time to cover a London rent

Darren rents his three-bedroom London house where he lives with his son aged 8 and daughter aged 11. He works half time as an ICT support engineer, and is able to pick his children up from school himself. Although he earns £19 an hour, above the average wage, the £13,000 a year he earns part time leaves him well short of what he really needs for his family. A big contributor to this situation is his high rent – £1400 a month, which is £160 above what he is entitled to under universal credit. After paying rent and tax and receiving universal credit, he is £70 short of what he needs. Darren could make ends meet if he worked full time, provided he could find someone to pick up the children after school (either for free or for a small payment). He prefers however to have time for his children; as a result, money is always short, and he is unable to afford some of the things he would expect for his family, such as a week's holiday away each year.

The effect of childcare costs

One of the biggest expenses for single parents trying to make ends meet is childcare. The cost of nurseries and childminders has risen steeply: according to surveys by Daycare Trust, childminder fees rose by about 50 per cent in London and 30 per cent outside London between 2008 and 2012. The main calculations made in this paper assume the UK average of £3.70 an hour for a childminder. The London average is much higher than this – £5.16 an hour for a child over 2. In other parts of South East England, the rate is also high.

The price of childcare makes a crucial difference to how much a family can improve its living standard through work. This applies in particular to decisions about whether to work part time or full time. At London childcare prices, people on low wages may actually be worse off working an extra hour if that requires an additional hour of childcare. Universal credit potentially reimburses up to 70 per cent of childcare costs[3], requiring the family to pay at least 30 per cent, which is £1.55 an hour based on the London childcare average. Someone on the minimum wage who is paying tax and having their universal credit reduced as their earnings rise would gain only £1.46 for each additional hour worked, leaving them 9p an hour worse off overall.

Moreover, the loss will be much greater if the childcare fees exceed the cap for one child of £760 per month (£175 a week) or for two or more children of £1300 per month (£300 a week) in childcare costs eligible for universal credit support. For one child, this amounts to 34 hours of childcare at the London average (corresponding to fewer hours of working time, since childcare needs to cover some time travelling from childcare setting to workplace).

For people on low wages, this reinforces the disincentive to work full time. It traps some families with high childcare costs below the poverty line, and many more on incomes which don't allow them to reach acceptable minimum living standards. It encourages them to accept the income that they can achieve by working few hours and using little or no paid childcare, rather than increasing their hours and progressing in work accordingly.

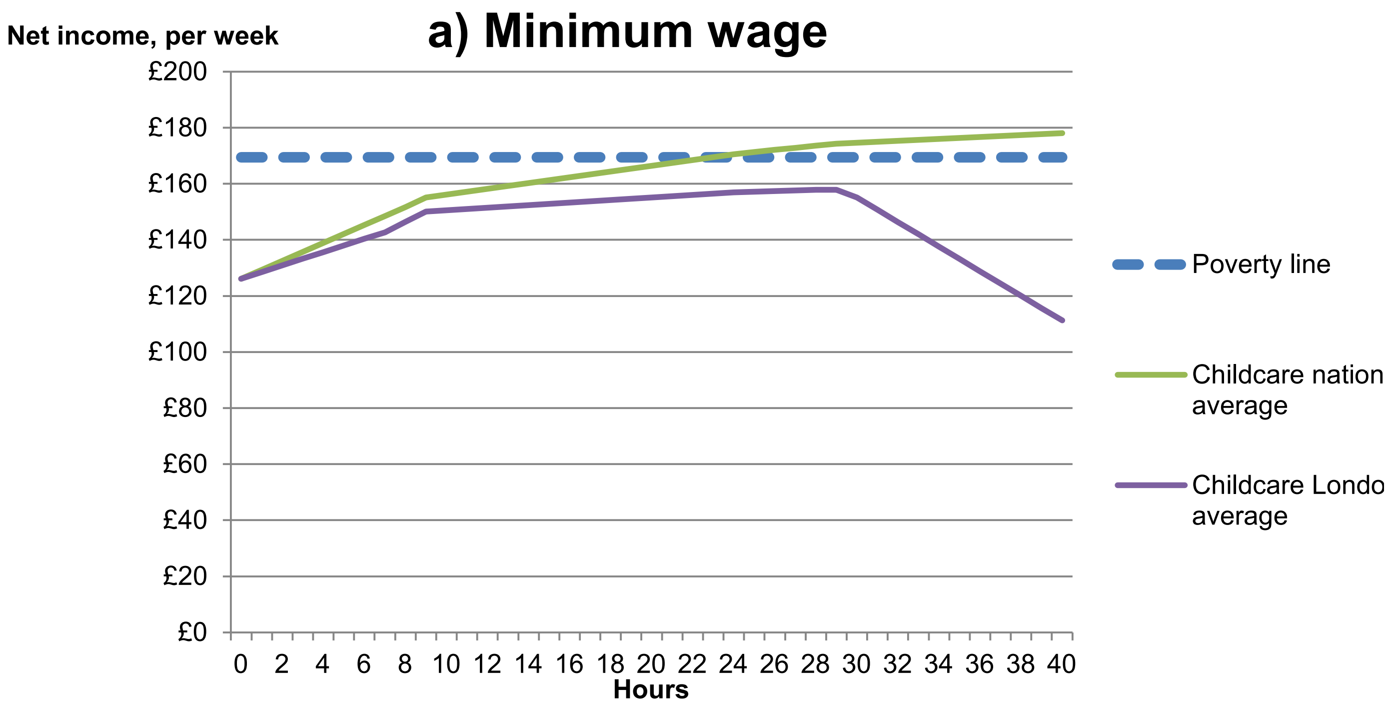
The impact on actual living standards is more pronounced for people on better earnings, where high childcare fees can make a difference to their ability to reach the adequacy level. This is illustrated in Figure 4. With childcare fees at outside London rates, this single parent can just escape poverty on a minimum wage, and can get comfortably above the poverty line on a median wage. However, with London childcare rates, the picture looks very different. On the minimum wage, the family cannot get above the poverty line, and on a median wage, they can only just do so. In both cases,

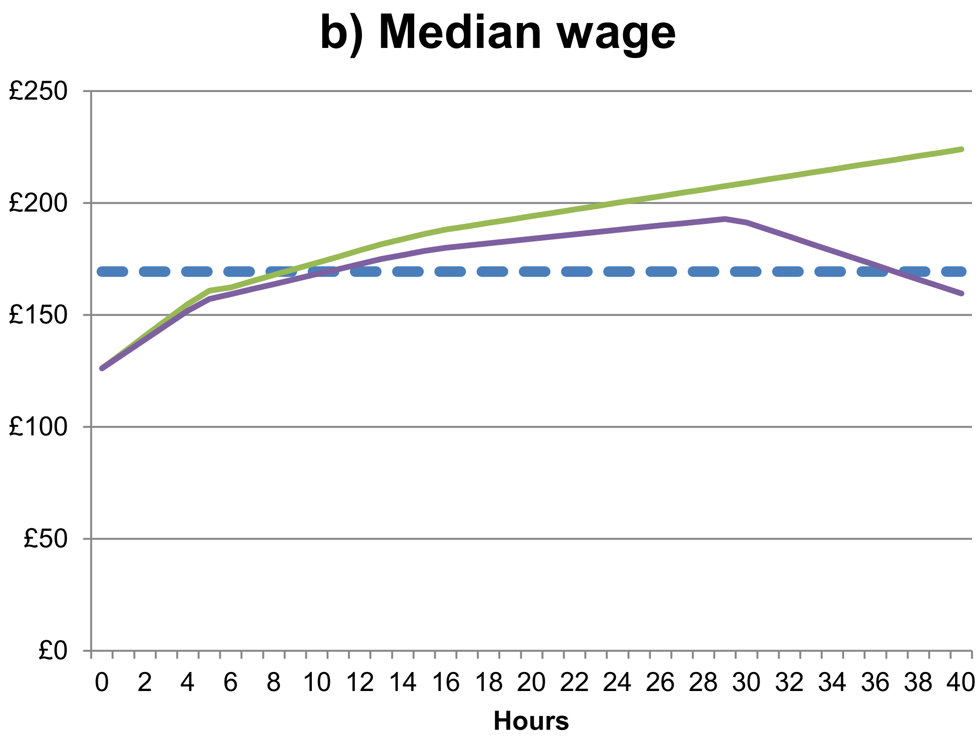
4 70% of up to a maximum of £760 per month for one child or £1300 for two or more children

the net income of the family takes a sharp dip if the parent chooses to work more than 29 hours a week, because childcare then hits the limit supported by universal credit. Beyond this point, even someone earning £11.15 an hour only keeps £2.70 for every additional hour worked, but must pay a childminder an average of £5.16 an hour in London.

Figure 4 – Escaping poverty with different childcare costs

Single parent with child aged 1, 2012: on projected levels of Universal Credit





Example 3 – Nursery costs combine with high rent to disadvantage single mum working part time in Home Counties

Sophie is a pharmacy technician who works in Guildford for 22 hours a week, earning £10,853 on a full time equivalent salary of £18,500 a year – equivalent to a wage of £9.50 an hour. Her son, aged 2, attends a nursery for 25 hours, paying £110 a week, equivalent to £4.40 an hour, which is the average for the South East, but a quarter higher than the average for all regions outside London. The difficulty she has in affording these fees are slightly exacerbated by her housing situation. She rents a two bedroom house for £213 a week, which is £6 more than she is entitled to on universal credit.

Overall, Sophie's family is well clear of the poverty line, but still has over £50 a week less than it would need for an adequate standard of living. If Sophie increased her hours to full time, this gap would fall significantly, but would still exceed £30. Were her childcare and housing costs to be cheaper, on the other hand, she could get to within £14 a week of the minimum by working full time. Thus, these costs significantly affect her family's potential to make ends meet by working longer hours.

Policies that could help single parents towards more adequate incomes

An important conclusion of the above analysis is that, on their own, policies intended to help single parents to work and to improve their earnings cannot be guaranteed to give them the opportunity to get above the poverty line, nor of reaching a minimum socially acceptable standard of living. The high cost of necessities and in particular of housing and childcare mean that the universal credit system as presently envisaged will leave many single parent families still below an adequate income level, even with close to average wages. Measures that reduce these costs, especially the cost of childcare, can be an important part of the solution. However, another central consideration is the level of universal credit itself. With so many families dependent on the credit, its adequacy or otherwise will be a crucial influence on family living standards.

In particular, six ongoing decisions about universal credit will make a difference:

- **The basic level of the credit for a single parent**

Raising this would result in a flat rate gain for single parent families on low incomes

- **The basic level of the credit for each child**

Raising this would also help all families directly, but larger families more than smaller ones. It is the equivalent of the present child element of the child tax credit, which has been used as a key tool for combatting child poverty over the past decade

- **The "taper" rate at which the credit is withdrawn as earnings rise**

Early proposals for a universal credit suggested that this should be 55 per cent[4] but it has been set at 65 per cent (based on the current economic climate and public spending constraints), which accounts for a lot of the disincentives to work full time described in this paper. Reducing the taper

5 Centre for Social Justice (2009) Dynamic benefits – in which 55% was the preferred proposal as "This rate represents the best compromise between improving incentives and containing costs".

rate would lessen that disadvantage for all, and so focus resources on helping all universal credit claimants with significant but still modest earnings

- **The level of the "disregard" – the earnings level above which the credit starts being reduced**

Putting resources into raising this level would help everybody who now exceeds the disregard – that is all families other than those not working or working very short hours. It could be an important measure to ensure that the income "plateau" for people working more than a few hours a week is closer to a minimum acceptable income

- **The percentage of childcare costs payable through universal credit**

This is planned at 70 per cent, confirming its reduction to that level in the tax credit system from 80 per cent, in April 2011. As shown in a previous paper (Hirsch, 2011), a lower rate adds to the "hours trap" that prevents families from improving their net income by working more hours if that requires them to buy more childcare

- **The level of rents eligible for universal credit**

A recent tightening up on these levels has left more people in the private rented sector having to pay part of their rents themselves, even if they have no earnings, and the current trend is towards reducing people's housing benefit entitlements even further. To the extent that this trend continues under the new system, it could cause more single parents to be in poverty after housing costs, and make it even harder for families even on reasonable earnings to make ends meet.

The role of the personal tax allowance

It is worth noting one policy that will **not** make a significant difference to single parents' ability to reach a minimum income, even though it is the present Coalition Government's most prominent policy for helping people on low incomes. This is the raising of personal tax allowances. It has already been pointed out that this policy is not well targeted on people on low incomes, since all basic rate taxpayers benefit, most of whom do not live in low income families. What is not generally appreciated is that taxpayers on low incomes will actually gain **less** from such a policy than other taxpayers under universal credit, unlike under the present tax credit system.

Here is why. At present, a £1000 increase in tax allowances is worth £200 to most basic rate taxpayers, because they pay 20 per cent tax on £1000 less income.[5] This is true whether or not people are on tax credits, which are calculated on the basis of total earnings, without reference to how much tax a household is paying. Universal credit, on the other hand, is assessed on post-tax income, with people getting less of the credit the higher a family's income is after tax. The effect of a £1000 increase in the tax allowance on a taxpayer receiving universal credit would be, first, to raise their post-tax income by £200, but then, to take that extra £200 into account when "tapering" the credit at 65 per cent.

This would trigger a reduction in the credit by £130, leaving only a £70 net gain. In other words, *a £1000 increase in tax allowance will give £200 to every basic rate taxpayer except those on universal credit, who will gain only £70.* It would be hard to design a policy that was *less* well targeted on low income families.

6 Those in receipt of in-work housing benefit and/or council tax benefit do not currently benefit in full from personal tax allowance increases, as these benefits are already tapered away (at a rate of up to 85%) on the basis of post-tax income.

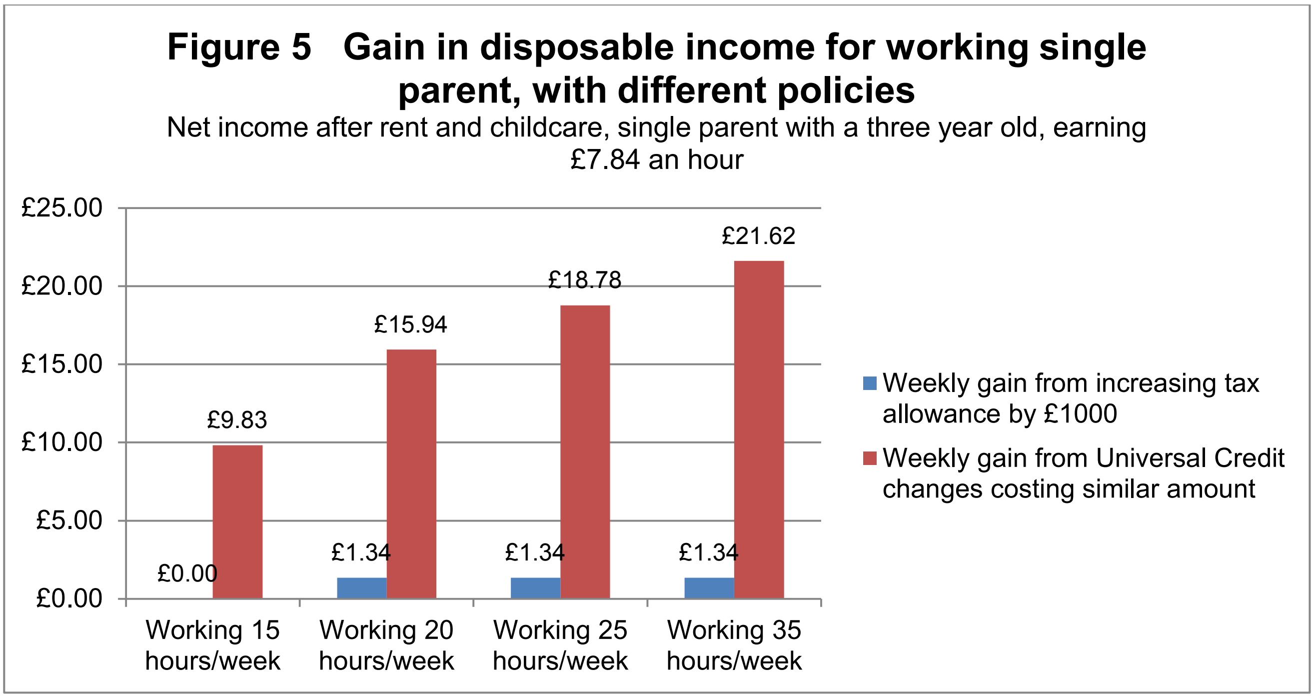
Comparing different options for supporting single parents in work

Figure 5 illustrates the relative effectiveness of putting money into raising tax allowances and improving the terms of the universal credit, in providing a more adequate income for a single parent family. Because it affects so many people, increasing the tax allowance is expensive. The £1000 increase introduced in 2011-12 cost £3.3 billion. This can be compared to the cost or savings to the Exchequer of three other policies, affecting tax credits, implemented at the same time (see Budget 2011, HMT, Table 2.2):

- Increasing the child element of the Child Tax credit by £150 a year above indexation cost £1.2 billion
- Reducing the rate of reimbursement of childcare costs, from 80 to 70 per cent saved £340 million
- Increasing the tax credit taper by two percentage points saved £640 million.

These policies can be matched with equivalent measures in changing the terms of universal credit. If the per child allowance in the credit were raised by £300 a year, this would cost about £2.4 billion. Raising the percentage of eligible childcare back to 80 per cent would cost roughly £400m (slightly more than the equivalent cost under tax credits, because eligibility has been extended to people working less than 16 hours a week). If the universal credit taper were reduced from 65 to 62 per cent, this would cost about £600 million. (A three percentage point change in a taper on post-tax income is about equivalent to a two percentage point change applied to pre-tax income.) Together, all these measures would add up to a cost of about £3.4 billion, similar to the £3.3 billion cost of raising the personal tax allowance by £1000.

Figure 5 compares the impact of these two types of policy – one increasing the tax allowance and the other investing a similar sum in improving the terms of universal credit. It is clear that the latter has a much more tangible impact on the adequacy of single parents' incomes. In the example shown, a single parent working full time on a "typical" low wage (one that a quarter of workers earn below), supporting one young child, would gain only just over £1 a week from the higher tax allowance, but about £24 a week from improving the universal credit. The latter would close over two thirds of the gap between this family's income and the Minimum Income Standard (in the favourable scenario, shown here, of a family living in social housing). For people on slightly higher wages than this, it would make the difference between meeting the standard and falling below it.



Tax allowance scenario: raise tax allowance by £1000 a year costing £3.3 billion.
Universal credit scenario: raise eligible childcare to 80 per cent, lower universal credit taper by 3 points, increase child allowance in universal credit by £300.
Both scenarios cost just over £3 billion.

Example 4 – Mother in median wage job who would reach acceptable living standard with a little extra help

Joan works full time as a manager in a large superstore in Leeds, earning £23,000 a year. Her salary plus universal credit support exactly covers her family's minimum needs, including the £55.50 she pays for her nine year old to attend an after school club: she is £4 a week above the Minimum Income Standard. However, she finds working full time a burden, and would like to spend more time with her daughter, who has special educational needs.

If the government were to put the income tax allowance up by a further £1000, the reduction in her universal credit entitlement would mean that Joan would only have just over £1 a week more in her pocket, and would not be in a position to reduce her hours. But increasing the universal credit child allowance, paying a greater percentage of childcare and reducing the income taper (as described above) would allow her to work nine fewer hours a week, and still have the same amount, net, to live on as she does now. Such flexibility in balancing her parenting requirements with the need to provide for her family would make a huge difference to Joan's life.

Conclusion: work remains an uneven route out of poverty

The above analysis shows that universal credit will help many – but by no means all – single parents to escape poverty, but is likely to leave most with incomes that are too modest to be able to afford the standard of living that most people would consider a minimum in 21st century Britain. In many cases, increasing the number of hours worked will make a negligible difference to net household income, removing the incentive for them to progress and take on more work. Moreover, for some families, especially those with high housing or childcare costs, even working long hours will not remove the risk of poverty.

Universal credit in combination with taxation ensures that families typically lose three quarters of the additional earnings that could help them progress to a reasonable living standard. For some families, this trap is made worse by high childcare costs, and it is larger families and those with small children for whom the trap is most acute. An exacerbating factor, increasingly, will be housing. Any family renting a home whose rent exceeds the amount reimbursable through universal credit starts even further below an adequate income, and finds it even harder to make up this shortfall through additional earnings.

It is important however to bear in mind that these results are the product of the illustrative rates for universal credit that the government has produced for 2012, the year before the credit will actually be launched. The level at which the credit is actually set, and how it moves over time, will be crucial. More generous rates for the basic credit, higher disregards, less steep tapers and a higher rate of reimbursement for childcare costs could all help single parents rise lift their families out of poverty and towards an adequate income. Such help for low income families would go many times further in addressing need than the same money spent on further increases in tax allowances.

Appendix 1: Cost assumptions

Throughout this paper we have based our cost estimates on the following assumptions:

- Childcare costs: based on the most up-to-date evidence from Daycare Trust on childcare costs, using either national or regional (London or south-east) figures as indicated in each example (Daycare Trust, 2012), using the hourly rates as below:

Region	Nursery (under two)	Nursery (two and over)	Childminder (under two)	Childminder (two and over)	Out-of-school clubs
UK average	£4.08	£3.90	£3.70	£3.70	£3.04
London	£5.07	£4.49	£5.18	£5.16	£3.17
South-east	£4.77	£4.44	£4.12	£4.07	£3.19

Costs are average hourly rates, and are approximate due to rounding.

- Housing costs: based on costs as indicated for:

Median private rented sector rent, calculated using Valuation Office Agency market data **http://www.voa.gov.uk/corporate/statisticalReleases/120531_PrivateResidentialRentalMarketStatistics.html**

Local Housing Allowance reference rents, calculated using Valuation Office Agency Data **https://lha-direct.voa.gov.uk/search.aspx**

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