

Department for Work and Pensions

Research Report No 181

Working Families' Tax Credit in 2001

Stephen McKay

A report of research carried out by the Personal Finance Research Centre, University of Bristol on behalf of the Department for Work and Pensions

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The author takes responsibility for any errors or omissions in this report.

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The Author

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Glossary

Low/moderate-income families

In 2000, the study interviewed all lone parents, plus couples who were either not working, working but for 1-15 hours, working and receiving WFTC, or working and with earnings up to the point where WFTC runs out for each family type, plus 10 per cent. In making this selection, the effect of childcare tax credit was included for anyone paying for childcare. In 2001, families with children of all income levels were included.

Paid work/working /workless

Unless stated otherwise explicitly, references to paid work, and the lack of it, relate to employment of at least one hour a week. However, further clarification is usually provided, and the group of 'those working at least 16 hours' is analysed in most depth.

WFTC

Working Families' Tax Credit – a tax credit introduced in October 1999 for families on low/moderate income.

Childcare tax credit

Part of Working Families' Tax Credit, enabling awards to be increased by up to 70 per cent of eligible childcare costs up to a maximum cost of £135 per week for one child and £200 a week for two or more children (£100 and £150 at the time of the second survey, FACS 2000).

Eligible non-recipient (ENR) of WFTC

A family not receiving WFTC, but providing interview data that suggests they are *eligible* to receive it.

Childcare: eligible/ineligible

Childcare is defined as 'eligible' if it equates to forms of childcare that are supported by the childcare tax credit within WFTC. This includes all care registered with the local authority under the provisions of the Children Act 1989, plus certain other elements - including a child care scheme run on Crown property which does not need to be registered. Otherwise childcare is defined as ineligible.

WFTC payment methods

Couples may choose which person applies for WFTC. The payment method is then generally determined by the employment status of the applicant – an employed applicant will be paid into the wage packet by their employer (PVE), perhaps being paid directly for the first few weeks of the award. Direct payment is still available for non-working partners in couples if they chose to make the application instead of their working partner, and remains available for the self-employed.

ACT (automated credit transfer)

Payment of benefits, pensions and tax credits directly into bank and building society accounts.

PVE (payment via employer)

The main method of paying WFTC, involving employers paying tax credits into people's wage packets. Largely replaces Order Books and ACT (automated credit transfer – being paid through a bank or building society account).

Income BHC (before housing costs) and AHC (after housing costs)

Income is calculated using a formula replicating that used in the Households Below Average Income statistics. This presents total incomes both before housing costs have been deducted (BHC) and afterwards (AHC). The latter figures can be negative.

Notes on terminology and symbols

A large number of tables appear within this report. The following conventions are used:

Figures in [] are based on fewer than 50 actual families, and should therefore be treated with caution as they may be unreliable.

0 = a true zero, no cases for this category.

* = a figure of less than 0.5% (of the relevant base), but more than zero.

- = that this category is not applicable.

A note under each table gives details of the appropriate 'base' for the table – those to whom the figures relate.

Test of significance are at the five per cent level. Results are significant at this level unless stated otherwise. Note that with larger sample sizes a relatively small percentage difference between sub-groups may be statistically significant.

Summary

Introduction

This report provides analysis of the first three waves of a large survey of families with children. In each year (1999, 2000 and 2001) a sample of lone parents has been interviewed. In 1999 and 2000, only low/moderate-income couples with children were interviewed. Interviews were extended to all couples, across the income distribution, in 2001 to create a representative sample of all families with children.

The data may be analysed in two different ways. First, as a picture of all Britain's families with children in 2001. Second, as a panel study showing how individual families developed and changed over time, between 1999 and 2001.

A total of 8,541 families were interviewed in 2001, and in total 10,428 different families have been interviewed as part of this series of surveys. The panel element of this study has meant that close to 4,000 families were interviewed in both 2000 and 2001, and these are one of the main groups analysed in this report (especially those with any experience of WFTC).

This report concerns WFTC – who receives it, at which times, how it affects their behaviour (regarding working hours and childcare), and families' experiences of applying for, and receiving, this tax credit. It is one of four reports based on primary analysis of this data. Other reports cover living standards (by Vegeris and Perry), movements into work & childcare (Kasparova *et al.*), and family change (Marsh and Perry). A technical report on the fieldwork process has been produced by the National Centre for Social Research, who conducted the survey interviews.

A changing caseload

Whilst 18 per cent of families received WFTC, it was received by 31 per cent of lone parents and 12 per cent of couples (Table 2.1). Among families in paid work of at least 16 hours a week, 21 per cent were receiving WFTC (64 per cent of lone parents, 13 per cent of couples).

If we look at families with children sorted by income, and then look at each 'tenth' (or decile, after adjusting for family size), then families with incomes in the 30-40 per cent group (i.e below middle incomes, but better off than about one-third of families) were the income group most likely to be receiving WFTC.

Some 61 per cent of WFTC recipients in 2001 had been receiving WFTC in 2000. Just under half of the 'new' recipients were not in paid work in 2000 and just over half were already in work (Table 2.8).

Among those modelled as entitled to the childcare tax credit and reporting help with childcare costs, over one-third said that WFTC had affected their childcare use, and one-quarter their own working hours (Table 2.10).

Among lone parents receiving WFTC in 2000, 73 per cent also received WFTC in 2001. Nine per cent moved out of eligibility for WFTC due to increased income, eight per cent had stopped work, eight per cent had become eligible non-recipients, and two per cent had become self-employed, not receiving WFTC (Table 2.14). Couples were more likely than lone parents to have moved out of eligibility for WFTC because they had higher incomes (14 per cent), though they started from having lower average awards too. Nearly two-thirds (64 per cent) of couples who received WFTC in 2000 were also receiving WFTC in 2001.

A small group of WFTC recipients who stopped work were ineligible for Income Support because they received WFTC. They reported deteriorating financial circumstances, although other families who received Income Support in 2001, having received WFTC in 2000, were just as likely to report a downturn in their finances.

Among eligible non-recipients of WFTC in 2001, 21 per cent had received WFTC at some point since October 1999 (when it was introduced). A further 10 per cent had applied for WFTC and had been unsuccessful (Table 2.16). Such rejections may have taken place before a change of circumstances that meant they were eligible at the time of interview – or could indicate that the survey assessment of eligibility is not precise.

Moving into work: how important is WFTC?

One-quarter (23 per cent) of those not in paid work of 16 or more hours in 2000, had moved into work of 16 or more hours by 2001. Half of the lone parents moving into paid work had jobs where they worked for 16-23 hours a week (Figure 3.1).

Among those moving into work between 2000 and 2001, 63 per cent were receiving WFTC in 2001 (76 per cent for the lone parents, 48 per cent for the couples – see Table 3.2). A further 17 per cent appeared to be eligible for WFTC, but not receiving it. WFTC receipt was more common among those working shorter hours than average, particularly among lone parents.

Those receiving Housing Benefit were less likely than average to have moved into work, both compared with other tenants and those in other housing tenures (Table 3.3). However, the level of rents itself did not appear to affect the rate of moving into paid work – among tenants, those with higher rents were as likely, or not, to move into work as those with lower housing costs.

There was a strong association between having been on the New Deal for Lone Parents, and receiving WFTC having moved into paid work of 16 or more hours.

Most movers into work had pay rates above the level of the National Minimum Wage (Table 3.6), with an average hourly wage rate of £4.94.

Families receiving WFTC in 2001, having received Income Support in 2000, were estimated to be £64¹ a week better off than if they were not working, and instead receiving Income Support.

¹ The median figure was £50.

WFTC Recipients: Changes in work

Among lone parents receiving WFTC at 2000 and 2001, 38 per cent were working the same hours, 33 per cent more hours, and 23 per cent fewer hours (Table 4.1). The picture for couples was more complex. By and large the number working more hours was balanced by the number working fewer hours, with a significant proportion of couples continuing to work the same hours. Among lone parents, hours increases were more likely among those working shorter hours, and hours decreases among those working longer hours than average. This was somewhat linked to family circumstances.

Among couples, there was a very wide range of changes in hours of work and work status. However, the number of single-earner couples receiving WFTC in 2000 who became dual-earner couples in 2001 was broadly equivalent to the number of dual-earner couples becoming single-earner couples. However, there were too few two-earner couples receiving WFTC in 2000 to conduct very detailed analysis.

WFTC awareness and take-up

Awareness of WFTC among low and moderate-income families has risen to 42 per cent, from 33 per cent a year earlier. However, understanding of the levels of earnings that may still qualify for WFTC was quite poor – most people, including WFTC recipients, assume the 'run-out' point for themselves is much lower than it really is (see Figures 5.2 and 5.3). Those not in work under-estimate the most.

The rate of take-up of WFTC among eligible families increased from 62 per cent in 2000 to 67 per cent in 2001. Expenditure-based take-up increased from 76 per cent to 78 per cent. The caseload grew by more than 10 per cent between these dates (Table 5.2), whilst the size of the eligible population also grew, but more slowly. Hence there was an overall rise in the rate of take-up.

This overall increase in the caseload, and in the rate of take-up, translated into higher rates of take-up among all the groups analysed, with a sizeable increase among families with relatively small levels of entitlement to WFTC. Take-up among couples, especially two-earner couples, remains considerably lower than for lone parents.

Administration of WFTC

In 2001, as in 2000, about one WFTC recipient in every five had spoken to their employer about their most recent application. Employers were either positive or neutral in dealing with this group.

A similar number – 23 per cent of applicants – had contacted Inland Revenue about the progress of their application, which was an increase on the 16 per cent of 2000. Levels of 'customer satisfaction' with this contact had not changed; as this is a group who perceive some problem with their application, such as it appearing to be taking a while to resolve, satisfaction levels are likely to be lower than among the WFTC population as a whole. This is reinforced by the fact that nearly 90 per cent of those who had renewed a WFTC claim said that they were satisfied with how this had been handled. Only a minority of applicants (15 per cent) said that the time between application and WFTC payment took longer than they were expecting.

About half the WFTC recipients, and 72 per cent of the lone parents, were being paid WFTC directly into their wages. There is now greater understanding of this method, and fewer people said it caused them any concerns (dropping to 24 per cent in 2001 compared to 44 per cent a year earlier).

1 Introduction

1.1 Introduction

This introductory chapter looks at the background to the surveys being analysed. It provides greater detail of the surveys conducted, and methods of analysing the dataset.

1.2 Background

This report is one of four presenting analysis and results from the first three waves of a large-scale panel survey of families with dependent children. The other reports cover family change, changes in work & childcare, and changes in living standards.

The analysis is based on the 'Families and Children Study', or FACS. This series of surveys have now taken place in 1999, 2000 and 2001 (three more years are planned). However, the composition of each year's survey has changed considerably over time. In each year (1999, 2000 and 2001) a sample of lone parents has been interviewed. In 1999 and 2000, only low/moderate-income couples with children were interviewed². Interviews were extended to all couples, across the income distribution, in 2001 to create a representative sample of all families with children.

These surveys have several aims. The most important are to analyse the effectiveness of work incentive measures, and the effects of policy on families' living standards.

There are long-term Government targets to eradicate child poverty by 2020, and to reduce child poverty by half by 2010, as well as objectives to increase the proportion of households in paid work – one key target is for 70 per cent of lone parents to be in paid work by 2010. The Government's annual reports on poverty and social exclusion *Opportunity for all* (DSS 1999, 2000 & DWP 2001) have identified progress towards reducing poverty and eliminating child poverty. One of the major policy changes to move towards these objectives has been Working Families' Tax Credit (WFTC), and this tax credit forms the subject matter of this report.

WFTC replaced Family Credit in October 1999. WFTC was introduced to make work pay for low and middle-income families, building on the National Minimum Wage, and to tackle child and in-work poverty. Part of the reason for the change was to more clearly distinguish a tax credit from an in-work

² The income threshold for including couples with children was expanded somewhat in 2000 compared to 1999 (see Section 1.3.2).

benefit, to reinforce the differences between working and 'being on benefit'. WFTC provides larger awards than did Family Credit and is designed to reach more families. It aims to ensure that many more families on low and middle-incomes can keep more of what they earn. This is achieved by: a higher income threshold above which WFTC begins to be withdrawn; a lower rate of withdrawal above this amount (withdrawn at 55 pence in the pound compared to 70 pence in the pound under Family Credit); a complete disregard of maintenance payments (compared to a £15 disregard under Family Credit); and, a childcare tax credit, which is part of WFTC and enables awards to be increased by up to 70 per cent of eligible costs, up to a limit (see Glossary). There are also additional payments available for families containing disabled parents and children.

WFTC is administered by the Inland Revenue whereas Family Credit was administered by the (then) Department of Social Security. Since April 2000, many WFTC recipients have been paid through the pay packet by their employer. However, the precise method of payment depends on the employment status of the WFTC applicant (see Glossary).

WFTC was already considerably more generous than Family Credit at its point of introduction in October 1999. Since then, various reforms have added substantially to the support available to families with children where one parent works for 16 or more hours a week, including above-inflation increases in WFTC rates and child elements of Income Support, and the introduction of the Children's Tax Credit (a tax credit separate from WFTC). The Budget of March 2001 announced further reforms. These included increasing the basic adult credit in WFTC by £5 a week (from June 2001). The limits for eligible costs in the childcare tax credit component of WFTC were raised in June 2001 (to 70 per cent of eligible childcare costs up to a maximum cost of £135 per week for one child and £200 for two or more children). Overall, on average, families needed to have net incomes of around £200 per week or less to qualify for Family Credit. Under WFTC, net incomes of £300 per week are still consistent with eligibility for about half of all families. These figures do, of course, vary with family type – these thresholds have risen rather more for families with eligible childcare spending, and with younger children, or those who have disabled children.

Families with children may also be able to receive Housing Benefit and Council Tax Benefit when they are in paid work. However, the high value of WFTC tends to mean that relatively few are also eligible for these benefits. Those moving into work may be able to benefit from various transitional benefits, including a run-on of Housing Benefit and Council Tax Benefit, and the Lone Parent Benefit Run-on. Some home-owners may qualify for the Mortgage Interest Run On.

1.3 FACS surveys

The distribution of interviews in the three surveys, and numbers receiving Family Credit and WFTC, has been as follows:

Table 1.1 Number of FACS interviews in each year

	<i>Actual numbers of families</i>		
	1999	2000	2001
Number of families interviewed, of which:	5,397	5,250	8,541
Main sample	4,659	4,720	8063
FC top-ups (stock + flow)	738	530	478
Number receiving WFTC (or Family Credit)			
in main sample	982	1,108	1,369

In each survey there is a 'main respondent', which is the parent in a one-parent family, and the Child Benefit recipient ('main respondent', almost invariably female) in couples. In couples, we also seek to interview partners – with around 70 per cent agreeing to participate in full. The questions asked of partners mostly concern work and their health and education. A shorter proxy interview concerning partners is conducted where possible, if the partner cannot be interviewed.

The main sample in 1999 consisted of lone parents, and those couples with children who were not in paid work of 16 or more hours, receiving Family Credit, or whose income was within 35 per cent of the limit for Family Credit. An additional top-up sample of Family Credit recipients (containing stock and flow elements) was incorporated in 1999, and has been followed-up subsequently. This top-up sample is not included in the main survey results, but may be analysed separately (see Table 2.11). These extra Family Credit recipients were originally included in the study to ensure that there were sufficient families to analyse who were receiving in-work support in 1999. In the event, numbers in the main sample were sufficiently large to analyse separately.

The main sample in 2000 consisted of all families interviewed in 1999, plus booster and re-screened samples whose income was within 10 per cent of the limit for WFTC (plus childcare) – or who were not in paid work of 16 or more hours, or were receiving WFTC, or lone parents of any level of income. Had the limit used in 1999 been adopted for 2000 the cut-off would have been around four per cent above WFTC. So, the 2000 survey introduced a group of slightly higher-income couples to the sample.

The main sample in 2001 was drawn from all families previously interviewed (in 1999 or 2000), plus booster samples to extend the sample to families of all income levels. This meant going back to couples who had previously been screened out as having higher incomes, as well as interviewing samples of new Child Benefit recipients in each sampled area.

More details about each survey are shown in the Appendix.

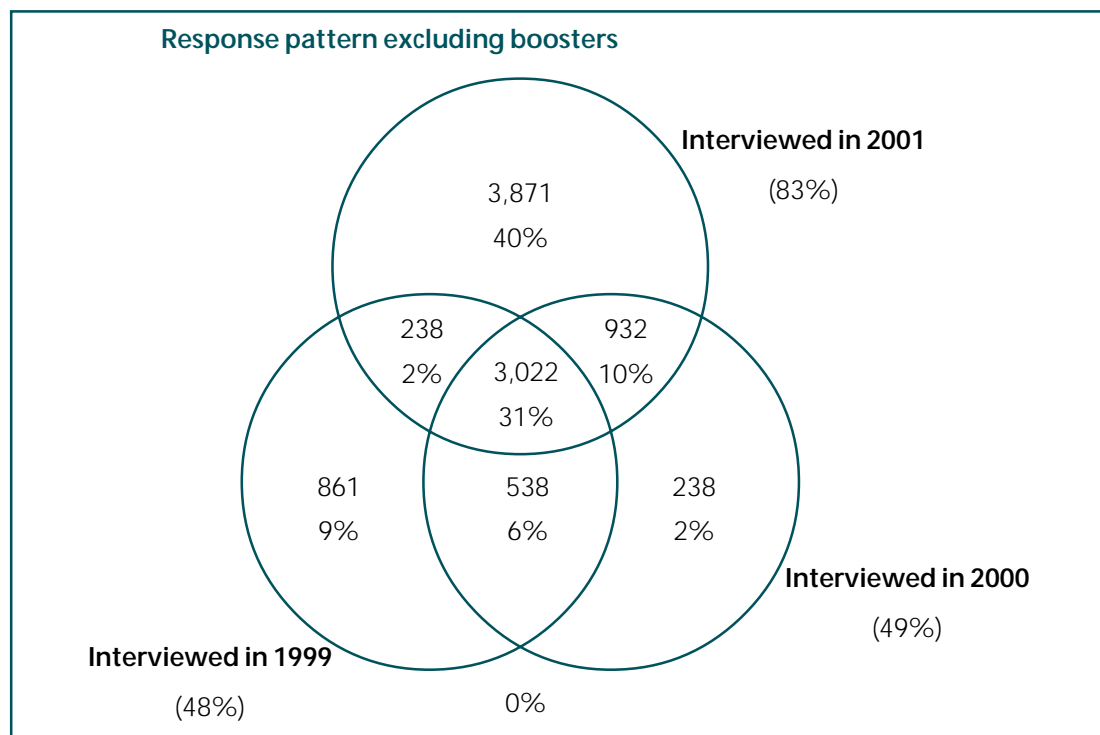
1.3.1 Response profiles

The breakdown of FACS respondents is as follows:

- 9,960 families have taken part in at least one survey (10,429 including the Family Credit top-ups);
- 3,022 have taken part in all three years 1999, 2000 and 2001;
- 932 took part in 2001, having joined the sample as boosters in 2000;
- 238 took part in 2001 and 1999, but were not interviewed in 2000 (e.g. non-contact, refusal later converted);
- 538 took part in 1999 and 2000, but not in 2001;
- 4,960 have taken part in only one wave; this includes 861 in 1999 only, 228 in 2000 only, and 2,871 in 2001 only.

A chart (Venn diagram) depicting response profiles for all respondents (except the top-ups) is shown as Figure 1.1. This shows the overall number of families interviewed (9,960), with circles indicating the waves of the survey in which they participated. The large number interviewed only in 2001 (3,871) indicates the higher-income couples families who had been screened out in previous waves.

Figure 1.1 Response pattern – excluding Family Credit boosters (total percentages)



A forthcoming technical report from the National Centre for Social Research will provide more detail on response rates at different data collection waves, and reasons for non-response.

1.3.2 Dealing with attrition: fieldwork and analysis

As with other panel surveys, some respondents taking part in one year decline to participate in some later years. As data collectors, we attempt to minimise this attrition in various ways. Those taking part for the second time are given a financial reward for taking part. Continuing respondents receive a newsletter informing them of the how the survey data is being used – and including a reply-paid card to inform the survey team of any changes of address that have taken place (or which are soon expected to). At each survey wave, various attempts are made to follow-up on movers. Survey interviewers are also trained, and well-briefed each year, in methods of achieving high response rates.

Even so, a degree of ‘attrition’ remains and is probably unavoidable. If this loss of respondents is not addressed, it is possible for remaining respondents to look less and less like those taking part in earlier surveys, and to diverge from looking like the population of interest. Results based on remaining respondents might be biased relative to those based on figures for all possible panel members. For this reason, ‘weighting’ of respondents is carried out, so that the weight of each respondent reflects the likelihood that respondents within groups defined by family and other circumstances continue to take part. These ‘panel weights’ are designed to deal with the effects of attrition taking place between survey waves. These panel weights were calculated for all respondents taking part in wave 3 of the survey, and at least one other wave (1999 or 2000). These weights also feed into the construction of ‘cross-section weights’, which are used to ensure that each year the survey data correspond to the expected profile of families in that year (low- and moderate-income families, as defined above, for 1999 and 2000).

1.4 Analysis of the three-wave dataset

There are two main ways in which the interview data may be analysed. First, taken as a snapshot representative of families with children – restricted to low/moderate-income families in the first two years, but covering all families in the third year. Second, as a longitudinal dataset that enables us to look at how families' circumstances have changed over time.

In cross-sectional analysis, we look at the characteristics of families with children at a given point in time (mostly 2001, in this report). In longitudinal analysis, we measure changes among the individuals and families. How many and what kind of couples split up? Who among the lone parents moved into work? And so on. This is the 'panel' element of the study.

The number of families included in the cross-sectional analysis is less than the total number interviewed, because those families whose children have ceased to be of dependent age are excluded from such analysis. The sample representativeness is maintained by recruiting new families (those with new children, those who have just moved to the sampled areas) to replace those lost through ageing of children beyond dependent age, and those moving out of the survey. The analysis of families taking part in several waves (the 'panel') is restricted to the smaller group of those providing information at two or more waves. In this report, panel analysis is particularly applicable and appropriate for respondents taking part in 2000 and 2001.

1.5 This report

This report contains a number of sections, each dedicated to a particular aspect of evaluating the effects of WFTC. These sections look at the following areas, with particular areas of analysis shown:

- The changing groups of families receiving WFTC (who receives WFTC, how much they receive, receipt of childcare tax credit).
- The role played by WFTC when families move into paid work of 16 or more hours (how many do and do not receive WFTC, from what circumstances do they move into receipt of WFTC).
- How WFTC is associated with changes in employment and working hours over time (e.g. changes in hours worked, and benefit status).
- Levels of awareness of WFTC, and its rate of take-up among eligible families (what proportion of eligible families receive WFTC, how well-known is WFTC among families with children).
- The administration of the system (how long do applications take to process, how many people contact Inland Revenue).

The report closes with some concluding remarks.

1.6 Summary

This report provides analysis of the first three waves of a large survey of families with children. In each year (1999, 2000 and 2001) a sample of lone parents has been interviewed. In 1999 and 2000, only low/moderate income couples with children were interviewed. Interviews were extended to all couples, across the income distribution, in 2001 to create a representative sample of all families with children.

The data may be analysed in two different ways. First, as a picture of all Britain's families with children in 2001. Second, as a panel study showing how individual families developed and changed over time, between 1999 and 2001.

A total of 8,541 families were interviewed in 2001, and in total 10,428 different families have been interviewed as part of this series of surveys. The panel element of this study has meant that close to 4,000 families were interviewed in both 2000 and 2001, and these are one of the main groups analysed in this report (especially those with any experience of WFTC).

This report concerns WFTC – who receives it, at which times, how it affects their behaviour (regarding working hours and childcare), and families' experiences of applying for, and receiving, this tax credit. It is one of four reports based on primary analysis of this data. Other reports cover living standards (by Vegeris and Perry), movements into work & childcare (Kasparova *et al.*), and family change (Marsh and Perry). A technical report on the fieldwork process has been produced by the National Centre for Social Research, who conducted the survey interviews.

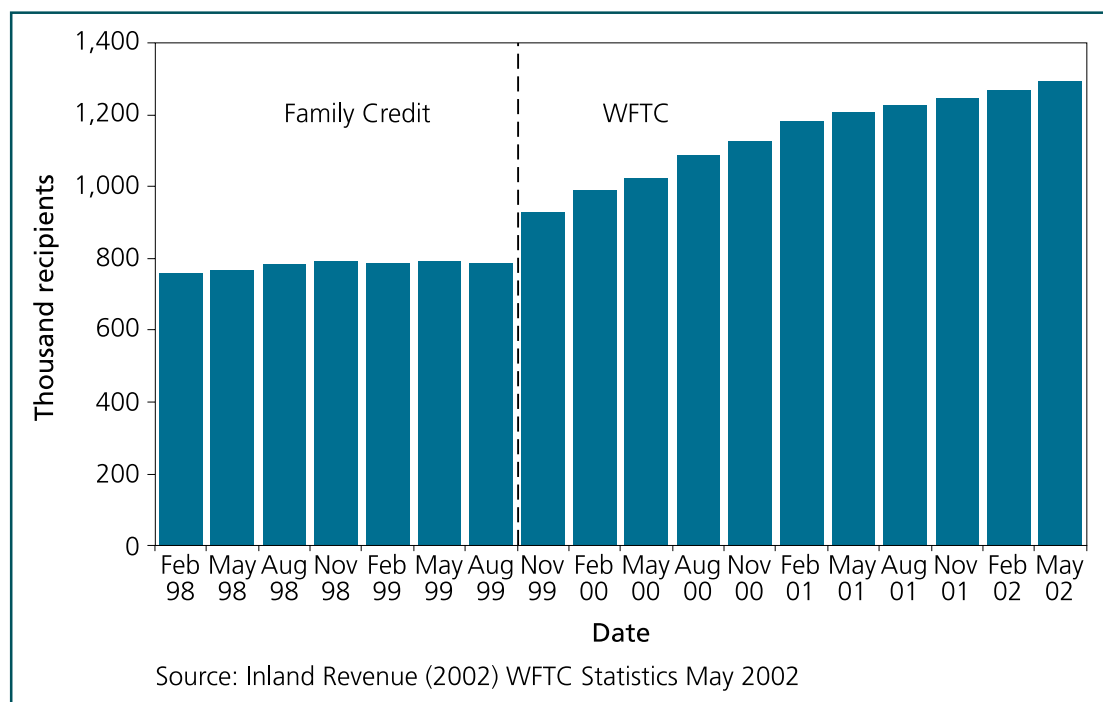
2 A changing caseload

2.1 Background

At its peak, Family Credit was being paid to around 800,000 families with children in Great Britain. At the time of the third wave of fieldwork, the number receiving Working Families' Tax Credit³ (WFTC) in Great Britain had reached 1.25 million (November 2001 figures).

In the last year of Family Credit, 1999, the caseload had reached something of a plateau. Previously, numbers receiving Family Credit had risen steadily year-on-year from only around 250,000 at the time of its introduction in 1988. The introduction of WFTC made an immediate difference (see Figure 2.1). Numbers rose by nearly 150,000 between August and November 1999, and by over 300,000 between August 1999 and August 2000.

Figure 2.1 Growth of WFTC and Family Credit caseload in Great Britain



³ See Glossary for further details.

Between the second and third waves of fieldwork, the number of people receiving WFTC had risen from 1.13 million to 1.24 million – a growth of 120,000, or over 10 per cent of the caseload in 2000. This 10 per cent annual growth rate may be one reason why the take-up rate has also increased, something to which we return later (Section 5.3).

2.1.1 Beneficiaries of WFTC: Administrative data

The administrative data for November 2001 show an average weekly WFTC award of nearly £84, with couples receiving an average of £79 and lone parents, a majority of recipients, £88. However, around one recipient in every six (17 per cent) received £120 or more a week.

Awards are somewhat higher for the self-employed (£111) than for employees (£81), reflecting rather lower assessed earnings among the self-employed. Families where the main earner is self-employed comprised nine per cent of the caseload in November 2001. Weekly awards tend to be larger, on average, the more children in the family – although three-quarters (76 per cent) of recipients have either one or two children.

Over one-quarter (28 per cent) of WFTC recipients were in their first six months of continuous receipt (although they could have received WFTC previously, then had a gap until the next period of award). Only 10 per cent of the WFTC caseload had been in *continuous* receipt of WFTC (and previously Family Credit) for four years or more.

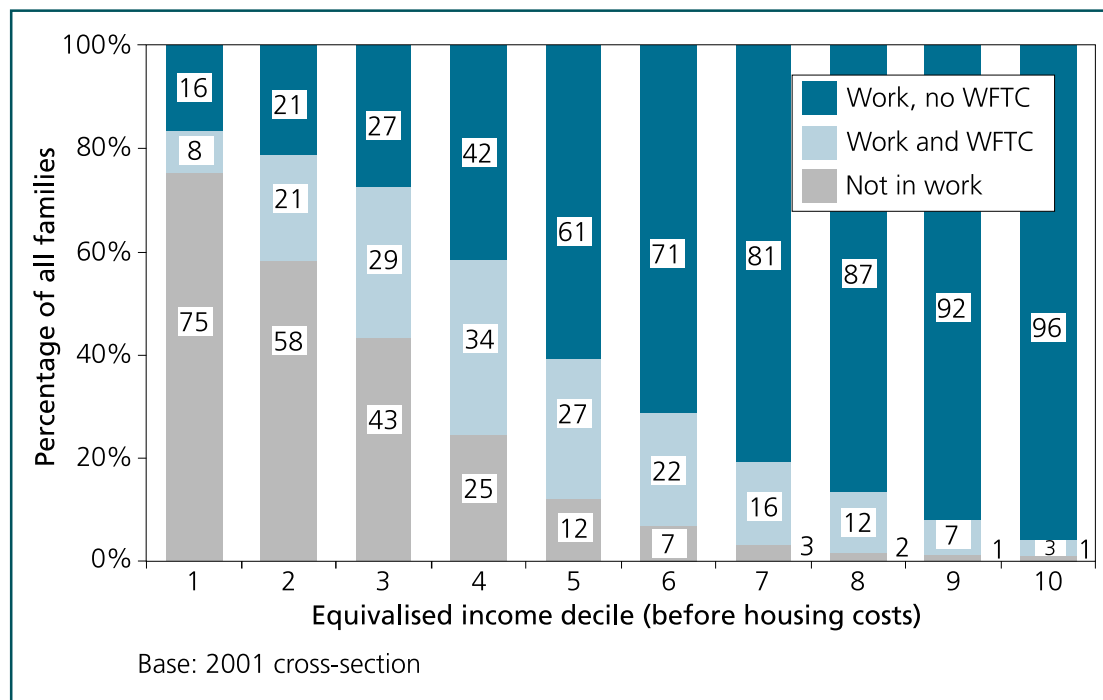
All figures in this section come from administrative data, unlike most of the report which is based on the FACS survey data.

2.2 Who receives WFTC?

Administrative data can provide great detail about the characteristics of recipients, but other sources are needed to set these recipients in context. In 2001, the Families and Children Study (FACS) sample was drawn from all families with children. Hence it is possible to compare WFTC recipients with all other families. This enables us to look at which types of families are most likely to be receiving WFTC (as at late 2001).

First, we look at rates of WFTC receipt across the income distribution (Figure 2.2). We begin by ordering families with children by income, and then divide them into ten equally-sized groups, or 'deciles'. For each of these groups we show the proportion not in work (or working but for less than 16 hours a week), and the proportions in work, divided into those with and without WFTC.

Receipt of WFTC among all families was highest in the 4th decile, which is those families with incomes higher than the bottom 30 per cent, but lower than the top 60 per cent of families. In the 4th decile, one in three (34 per cent) was working and receiving WFTC. Rates of receipt are also very high among the 3rd and 5th deciles. Above such an income, earnings are generally too high for families to qualify. Below this level, there is a greater chance that families are ineligible through not being in paid work (of 16 or more hours).

Figure 2.2 Work and WFTC by income group

The patterns of WFTC receipt for lone parents and couples within these same decile groups were rather different. The income deciles are based on *equivalised* incomes. This means that income has been adjusted to take account of family size, with adults counting for more than older children, who in turn count more than younger children.⁴ One effect of equivalising is that lone parents are assumed to have lower 'needs' than couples – one adult needs less for the same living standard than do two. As a result, the process of equivalising incomes pushes lone parents (and those with fewer children) further up the income distribution, and couples (and larger families) lower down the distribution, compared to not making such adjustments.

By contrast, WFTC rules (like those of Family Credit previously) may be considered to treat lone parents and couples alike. This means that lone parents on relatively higher equivalised incomes than couples may still be eligible for WFTC. As a result, the distribution of WFTC receipt for lone parents 'peaks' at rather higher incomes than for couples (not shown). However, at incomes above the middle of the distribution there are fewer lone parents than at lower incomes.

Overall, 18 per cent of families in FACS 2001 were receiving WFTC, with an average of £78 a week (Table 2.1). This average award of £78 is just a little below the average for November 2001 in administrative data (of £84), though not based on exactly the same reference period. Lone parents were more than twice as likely as couples to be WFTC recipients – 31 per cent compared with 12 per cent. Larger families – those with three or more children of dependent age – were more likely to be receiving WFTC than families with one or two children.

⁴ The McClements scale, as used in HBAI, has been used here. Calculations are also based on family incomes, not the wider concept of household income used in HBAI – although for families with children the effect of this difference is likely to be small. The methods follow HBAI, with this exception.

Table 2.1 Proportion of families receiving WFTC in 2001

Group	Row percentages		
	<i>Unweighted base</i>	Per cent receiving WFTC	Average weekly award (including childcare tax credit)
All families	7723	18	£78
Lone parents	2143	31	£84
Couples	5580	12	£72
Number of children			
1	3153	17	£63
2	3149	15	£76
3+	1421	23	£107

Base: 2001 cross-section

WFTC was more often received by families receiving maintenance (Table 2.2). It is well-established that families receiving maintenance are much more likely to be working than where maintenance should be received, but was not. Some 44 per cent of families receiving maintenance were also receiving WFTC, compared to 15 per cent among all families (those not receiving maintenance). The level of WFTC award was only slightly higher among those receiving maintenance, compared to those not receiving it.

Table 2.2 Proportion of families receiving WFTC in 2001 by maintenance receipt

Group	Row percentages		
	<i>Unweighted base</i>	Per cent receiving WFTC	Average weekly award
All families	7723	18	£78
Receiving maintenance	686	44	£84
Not receiving maintenance	7037	15	£77

Base: 2001 cross-section

The pattern is not surprising, in that under WFTC, maintenance is disregarded in full, and maintenance recipients are more likely to be lone parents, more of whom receive WFTC than couples. However, the pattern is more surprising in the light of evidence (Marsh and Perry, forthcoming) that levels of awareness of the disregard of maintenance within WFTC were rather low. The best-informed group, naturally enough, were parents receiving both maintenance and WFTC, but awareness of the total disregard was no higher than 37 per cent of this group. Awareness of the WFTC rules concerning maintenance among families receiving Income Support was extremely limited.

WFTC was slightly more often received by families paying for WFTC-eligible childcare than among all other families (Table 2.3). The administrative data show a higher level of average award for families receiving the childcare tax credit. Results here are obviously based on a much smaller sample.

Table 2.3 Proportion of families receiving WFTC in 2001 by childcare status

Group	Row percentages		
	<i>Unweighted base</i>	Per cent receiving WFTC	Average weekly award
All families	7723	18	£78
Paying for WFTC eligible childcare	911	22	£86
No such childcare	6812	17	£77

Base: 2001 cross-section

In Table 2.4, the rate of WFTC receipt is shown by work status. Some two-thirds (64 per cent) of lone parents in paid work of 16 or more hours were receiving WFTC. This indicates just how widespread WFTC receipt has become amongst lone parents in work. Among non-working lone parents in 2001, three per cent reported (still) receiving WFTC at the time of interview. This indicates that this group had been working at some time in the last six months (or, had an ex-partner who had been working in the last six months).

Among couples, only six per cent of dual-earner couples received WFTC, compared with 22 per cent of single-earner couples. Again, a small proportion of non-workers (five per cent of non-working couples) reported receipt. Where dual-earner couples were receiving WFTC, their average award of £58 was rather below the average £77 of single-earner couples. This is because dual-earner couples tend to have higher total earnings than single-earner couples, and so tend to be less likely to receive WFTC, and receive smaller awards when they do.

Non-workers reporting receipt of WFTC had higher than average levels of award. WFTC may only be received by those in paid work at the time of application, but awards run for six months irrespective of people losing their jobs. This group have left the eligibility range (because not in paid work of 16 or more hours) during the 26 weeks for which WFTC awards run. This fact, and the higher than average awards found, may indicate that they were previously on lower than average earnings, or had larger families than average. However, numbers are too small to conduct reliable analysis of this point.

Table 2.4 Proportion of families receiving WFTC in 2001 by work status

Group	Row percentages		
	<i>Unweighted base</i>	Per cent receiving WFTC	Average weekly award
All families	7723	18	£78
Partnership and work status			
Lone parent working 16 or more hours	977	64	£84
Lone parent not working 16 or more hours	1166	3	[£91]
Couple both working 16 or more hours	3037	6	£58
Couple one working 16 or more hours	2186	22	£77
Couple neither working 16 or more hours	357	5	[£100]

Base: 2001 cross-section

Numbers in [] are based on fewer than 50 cases and may be unreliable

2.2.1 Which workers receive WFTC?

Only those families in paid work of 16 or more hours a week may receive WFTC (although in a survey some may be reporting WFTC receipt having subsequently left work, because WFTC is paid for six months irrespective of most changes in circumstances). The likelihood of being in work differs by family type – couples more than lone parents, those with older rather than younger children, smaller rather than larger families. So a comparison of WFTC recipients with *all* other families risks confusing an effect of being in work, with the effect of receiving WFTC. For this reason any comparison should look separately at just those families working 16 or more hours, as well as at all families. This changes the picture somewhat.

As shown above, two-thirds (64 per cent) of working lone parents received WFTC. This compares with 13 per cent of working couples. Larger families were observed to have higher rates of receipt, overall, than smaller families. When attention is restricted to families working 16 hours or more, the difference becomes still larger (Table 2.5). Some 31 per cent of working families with three or more children were receiving WFTC. The last column of the table shows that 24 per cent of WFTC recipients were families with three or more children.

Table 2.5 Proportion of working families receiving WFTC in 2001

Row and column percentages			
Group		Per cent of this group receiving WFTC	Per cent of WFTC recipients in each group
	Unweighted base		
All families in work	6200	21	100
Lone parents	977	64	48
Couples	5223	13	52
Number of children			
1	2520	20	40
2	2646	18	36
3+	1034	31	24

Base: 2001 cross-section: those in work of 16 or more hours

The assessment of WFTC disregards any maintenance received, unlike under Family Credit where only the first £15 was disregarded. There is a strong association between receiving maintenance and lone parents being in work - among lone parents, 38 per cent of those working 16 or more hours received maintenance, compared with 12 per cent of lone parents either not in paid work, or working 1-15 hours a week. However, once lone parents are in work, there is relatively little association between maintenance receipt and receiving WFTC. Among working lone parents receiving WFTC, 40 per cent were receiving maintenance, compared with 36 per cent of working lone parents who were not receiving WFTC.

Few couples (three per cent) were receiving maintenance – although their greater numbers mean that couples make up a significant minority of all those families receiving maintenance.

Now, we consider rates of receiving WFTC among working families with different characteristics. WFTC receipt was common among families receiving maintenance - a narrow majority (54 per cent) of working families who received maintenance were also recipients of WFTC (Table 2.6). Estimates from the survey also suggested that 22 per cent of WFTC recipients were receiving maintenance (right hand column of table).

However, there is a strong link between maintenance receipt, WFTC receipt, and being a lone parent. So, the lower half of the table presents results only for working lone parents. This shows that much of the association between maintenance receipt and WFTC operates through difference in rate of receipt by family types. Among lone parents, the link between maintenance and WFTC was weak (as discussed above). Among working lone parents, the rate of receipt of WFTC was 67 per cent for those receiving maintenance, and 63 per cent for those not receiving maintenance. Maintenance seems to be linked to working, rather than receiving in-work support once in work.

Table 2.6 Proportion of working families receiving WFTC in 2001 by maintenance receipt

<i>Row and column percentages</i>			
Group	<i>Unweighted base</i>	Per cent of this group receiving WFTC (row per cent)	Per cent of WFTC recipients in each group (column per cent)
All families	6200	21	100
Receiving maintenance	535	54	22
Not receiving maintenance	5665	18	78
All lone parents	1072	64	100
Receiving maintenance	377	67	40
Not receiving maintenance	695	63	60

Base: 2001 cross-section: those in work of 16 or more hours

Among families paying for eligible forms of childcare, the rate of WFTC receipt was no different from those not paying for eligible childcare (Table 2.7). Estimates suggest that 15 per cent of WFTC recipients were paying for eligible childcare at the time of the survey⁵.

Table 2.7 Proportion of working families receiving WFTC in 2001 by childcare payment status

<i>Row and column percentages</i>			
Group	<i>Unweighted base</i>	Per cent of this group receiving WFTC (row per cent)	Per cent of WFTC recipients in each group (column per cent)
All families	6200	21	100
Paying for WFTC eligible childcare	911	22	15
No such childcare	5289	21	85

Base: 2001 cross-section: those in work of 16 or more hours

⁵ This is an important qualification. Administrative data are based on circumstances at the point of application, which may be different from a survey conducted perhaps some months later.

2.2.2 Origins of the 2001 WFTC caseload

Among those receiving WFTC at the time of interview in 2001, 61 per cent had been receiving WFTC the previous year. Of the remaining 39 per cent of 2001 WFTC recipients, in 2000, 20 per cent were not in paid work (or, were working 1-15 hours) while 12 per cent were eligible non-recipients (ENRs) of WFTC and employees. Overall 15 per cent were receiving Income Support in 2000.

These figures indicate a great deal of continuity within the caseload, as most of this year’s WFTC recipients were receiving it a year earlier. If we exclude those receiving WFTC in 2000, when looking at the WFTC recipients of 2001, we are left with what we might call the ‘newcomers’ to WFTC. That is, those who were receiving WFTC in 2001, but not receiving it in 2000. This group of WFTC newcomers was split 46 per cent not working, 54 per cent in work, in 2000. Among the 54 per cent in work, 32 per cent were estimated to be ENRs of WFTC in 2000, with 22 per cent having income which took them out of WFTC eligibility in 2000.

Among those receiving WFTC in 2001, but who were not receiving it in 2000, 53 per cent were lone parents and 47 per cent couples. A more detailed breakdown of their work status is show in Table 2.8, divided into those receiving and not receiving WFTC in 2000. The right-most column for all 2001 recipients confirms that only about one in five recipients came from those not in work (or working <16 hours) in 2000. And, this group of movers into work and WFTC was mostly comprised of lone parents (16 per cent to four per cent). Some 11 per cent of WFTC recipients were dual-earner couples in 2000. Among the ‘newcomers’ to WFTC (those receiving it in 2001, but not in 2000), a narrow majority (51 per cent) were lone parents in 2000, mostly who were then not in work (39 per cent overall). Relatively few (seven per cent) of the newcomers to WFTC were non-working couples a year earlier.

Table 2.8 Origins of the 2001 WFTC caseload

	Column percentages		
	Not receiving WFTC in 2000	Receiving WFTC in 2000	All WFTC recipients
Partnership and work status in 2000			
Lone parent working 16 or more hours	12	52	36
Lone parent not working 16 or more hours	39	2*	16
Couple both working 16 or more hours	17	7	11
Couple one working 16 or more hours	24	38	33
Couple neither working 16 or more hours	7	2*	4
Unweighted base	406	644	1050

Base: Cross-section 2001 WFTC recipients

* These are families where individuals had left work during their WFTC award

Lone parents receiving WFTC in 2001 had been in their current jobs for an average (mean) of 42 months, with a median of 25 months. These figures were similar to those of couples, an average (mean) of 39 months with a median of 25 months, slightly longer if anything. Partners in families receiving WFTC in 2001 tended to have been in their current jobs for rather longer than this, they had an average (mean) of 68 months with a median of 34 months.

2.3 WFTC and childcare costs

WFTC offers much greater support for childcare than did Family Credit, in a number of ways. First it offers support for childcare costs for a wider age range; for children up to 15 (or 16 if disabled), rather than up to 11. It also adds the childcare element towards the overall award; under Family Credit childcare costs were disregarded from income, with the result that the maximum award could not increase, although effectively Family Credit was not tapered away until a higher level of income was reached compared with those not paying for childcare. Furthermore, the maximum level of support for childcare costs is much higher under WFTC than Family Credit, and has been increased. Under both WFTC and Family Credit, however, only registered childcare (for example nurseries and registered childminders) counts towards eligible support.

In the survey, respondents were asked: *'Did you qualify for help with childcare under WFTC?'* It was felt that asking directly about receipt of childcare tax credit was not appropriate, as the childcare tax credit is not a separate tax credit paid in its own right. But this question picked up far too many people stating they qualified for help with childcare costs, certainly more than could be receiving the childcare tax credit. It seems likely that some recipients were simply acknowledging that they had childcare costs, and that WFTC was helping towards meeting those costs. So, in this section, we explore the extent of the over-statement, and use information on childcare use from the questionnaire to construct a more valid indicator of who was receiving childcare tax credit.

As found in previous research on FACS 2000 (McKay 2002), nearly twice as many WFTC recipients reported receiving some 'help with childcare' as actually received childcare tax credit in administrative data (25 per cent compared with 12 per cent). Both lone parents and couples tended to overstate receiving assistance with childcare charges (Table 2.9).

The FACS 2001 survey has been used to 'model' eligibility for childcare tax credit, based on answers given to childcare use at the time of interview. What the model does is to use information provided on childcare use, childcare costs, and other circumstances, to estimate who appeared to be eligible to receive the childcare tax credit. These modelled figures form the middle substantive row of Table 2.9. These figures are much closer to what we found in administrative data – for lone parents and couples they are only two percentage points higher.

The model of childcare tax credit eligibility must be treated with some caution, since from this survey childcare use is known in detail only at the interview, not the time of application. However, the eligibility model does seem to reflect administrative data quite well. Insofar as part of the discrepancy is a result of WFTC recipients not claiming for help with childcare costs through their WFTC applications, we may be confident that most WFTC recipients who use eligible childcare do actually receive help with the cost through childcare tax credit. Among lone parents, over 90 per cent of WFTC recipients using eligible childcare appear to receive the childcare tax credit element. The principal reason for the relatively low proportion of WFTC recipients using childcare tax credit therefore seems to be low usage of eligible childcare per se.

Table 2.9 Reported receipt of childcare tax credit, modelled entitlement and administrative data

	Column percentages		
	Lone parents	Couples	All WFTC recipients
Reporting receipt of childcare tax credit in survey	35	16	25
Modelled as eligible for childcare tax credit	24	5	14
Help with childcare charges allowed (admin data for November 2001)	22	3	12
Unweighted base (survey)	666	696	1362

Base: Cross-section survey receiving WFTC

We can therefore have greater confidence in the modelled entitlement to childcare tax credit than on survey respondents’ reported receipt. This may be a better guide to people’s situation. However, many of the questions about the effect of receiving childcare tax credit are asked only of those reporting receipt. Naturally enough – eligibility for childcare tax credit is established by analysing the survey, not in the survey interview. Of those believing they received assistance with childcare charges, 45 per cent appeared to be so entitled on the basis of their answers regarding childcare use (and their work situation, etc.).

This next analysis shows how important it is to check reported receipt of childcare tax credit, against modelled entitlement (Table 2.10). Whilst 23 per cent of lone parents reporting receipt of childcare tax credit said it affected the type of childcare used, this rises to 34 per cent among those who also actually appeared entitled to receive the credit.

We take as our base those both reporting receipt of childcare tax credit, and appearing to be entitled to receive it. This is mostly lone parents – there were too few couples to be worth analysing. Over one-third (34 per cent) of lone parents receiving childcare tax credit said it affected the type of childcare that they used. A similar number (35 per cent) said it affected the number of hours that they used childcare. And one-quarter of lone parents receiving childcare tax credit (who constitute nearly one quarter of lone parents receiving WFTC) said this had affected the number of hours that they worked.

This table is based on direct questions about the use of childcare. There is no more detail on how precisely childcare changed as a result of financial assistance through the childcare tax credit of WFTC.

Table 2.10 Whether this help affected the type of childcare used, etc. (among those reporting receipt of childcare tax credit)

	<i>Column percentages</i>					
	Modelled as entitled to WFTC/cctc		Modelled as not entitled to WFTC/cctc		All reporting WFTC/cctc recipients	
	Lone parents	Couples	Lone parents	Couples	Lone parents	Couples
Has affected <i>type</i> of childcare used	34	[35]	10	0	23	7
Has affected <i>hours</i> use childcare for	35	[35]	7	1	22	8
Has affected recipients' own working hours	26	[25]	5	3	17	7
<i>Unweighted base</i>	<i>127</i>	<i>20</i>	<i>106</i>	<i>76</i>	<i>233</i>	<i>96</i>

Base: 2001 cross-section receiving WFTC. Numbers in [] are based on fewer than 50 cases and may be unreliable

Among the 2001 WFTC recipients who were modelled as entitled to childcare tax credit, 61 per cent were receiving WFTC in 2000 – about the same as for WFTC recipients as a whole. Twenty per cent of those WFTC recipients modelled as entitled to childcare tax credit were not in paid work in 2000.

2.3.1 Potential childcare use by non-workers

Where non-working respondents said they were looking for work, or who might look for work in a year or two, they were asked about the types of childcare they thought they might use. Some 46 per cent of this group thought they will probably have to pay for childcare, 55 per cent of lone parents and 37 per cent among couples.

The types of childcare they thought they might use are show in Table 2.11. A range of possibilities were mentioned. More than one in three (36 per cent) were thinking in terms of jobs that fitted around school-time hours, 16 per cent expected childcare from the child's grandparents, whilst 13 per cent believed their children would then be old enough not to need childcare. Registered childminders were the choice of 13 per cent. These were the four most common modes of childcare cited by respondents.

These answers suggest that many families were not expecting to use any formal childcare on returning to work – because their children were old enough not to need it, or because their jobs would be fitted around school. Those expecting to require childcare were split between those preferring more informal methods (such as their own parents), and those planning to use childminders.

Table 2.11 Expected future childcare use among non-workers expecting to work

<i>Column (multiple response) percentages</i>			
	Lone parents	Couples	All
Former partner	3	3	3
Current partner	4	17	10
Parents/in-laws	17	16	16
Older sibling	4	2	3
Other relatives	11	7	9
Nursery	6	4	5
Play group	2	2	2
Registered childminder	14	11	13
Unregistered childminder	2	1	1
Live-in nanny	*	0	*
Shared nanny	0	0	0
After school club	4	2	3
Only work during school hours	35	36	36
Take them to work with me	1	1	1
Old enough not to need care	14	11	13
Work from home	1	1	1
Other answer	1	1	1
Don't know	2	2	2
Potentially eligible for WFTC support through childcare tax credit	24	17	20
<i>Unweighted base</i>	<i>868</i>	<i>875</i>	<i>1743</i>

Base: Non-workers in 2001 cross-section expecting to work within next two years

Many families would not be eligible for WFTC on returning to work, for example because their earnings would be too high, although rates of WFTC receipt are high among those moving from non-work into paid work. Leaving this point aside, of the kinds of childcare mentioned, 20 per cent appeared to fall within the scope of the WFTC childcare tax credit. As discussed above, most did not expect to use childcare, or were expecting to rely on family members to provide childcare. Also not all would qualify for assistance even among the 'potentially eligible' group, for example couples where only one was in paid work, and those not eligible for WFTC on other grounds.

2.3.2 Changes in childcare use by WFTC recipients

In this section we comment on changes in childcare use between 2000 and 2001, focusing on those forms of childcare eligible for support within the WFTC childcare tax credit. Childcare usage is only asked of families in paid work, so these comparisons are restricted to those with at least one adult in work of at least 16 hours a week in both 2000 and 2001.

In Table 2.12 we show the proportion of families using eligible childcare in 2000 and 2001. This is analysed by their WFTC status in 2000 and 2001. There was no clear relationship between WFTC status and the use of eligible forms of childcare – except perhaps that those with no experience of WFTC were least likely to use eligible forms of childcare. Even so, the difference was rather small. The apparent decline in the use of eligible forms of childcare among those moving into WFTC receipt between 2000 and 2001 is not statistically significant. There did not appear to be any association between transitions into and out of receiving WFTC, and changes in the use of eligible forms of childcare between 2000 and 2001.

This analysis of actual use of eligible childcare may be contrasted with people's stated responses above (in Table 2.10). The earlier analysis was based only on those receiving WFTC in 2001, and was based on overall self-reported changes. It tended to show a rather larger effect of WFTC provision on childcare use than here. Partly this may be because of changes *within* eligible childcare use. A switch from a registered childminder to a nursery would not be picked up as a change in the use of eligible childcare, but could be one of the changes identified in terms of affecting the type of childcare used. Similarly, the current analysis is not sensitive to changes in the hours that childcare is used for. In each case, it is difficult to know how childcare would have changed in the absence of financial support.

Table 2.12 Use of eligible childcare by WFTC status 2000-2001

	Column percentages			
	WFTC transition status 2000-2001			
	WFTC in 2000 and 2001	Not receiving WFTC in 2000, but not 2001	WFTC in 2001, but not 2000	WFTC in either year
Used eligible childcare in 2000	14	15	13	13
Used eligible childcare in 2001	15	14	11	11
<i>Unweighted base</i>	<i>602</i>	<i>170</i>	<i>209</i>	<i>1222</i>

Base: Panel in paid work of 16 or more hours in 2000 and 2001

2.4 Destinations of the 2000 WFTC caseload and eligible non-recipients

The FACS survey has collected details of receipt of tax credits (and benefits) in 2000 and 2001, along with a wide variety of other information about families. This means we can analyse how patterns of receipt of WFTC are developing over time.

Of those receiving WFTC in 2000, some 72 per cent were receiving WFTC a year later in 2001.⁶ Among lone parents, 75 per cent of WFTC recipients in 2000 were also recipients in 2001, compared with 68 per cent of couples.

The likelihood that WFTC recipients from 2000 would go on to receive WFTC in 2001 did not vary by their 2000 payment method (see Table 2.13). Among lone parents, 74 per cent of those paid via their employer in 2000 were recipients of WFTC a year later – this compared with 73 per cent of those paid by Order Book, and 77 per cent paid by bank account. The Glossary explains some of the reasons for different methods of payment. However, the small differences between these figures, and similar patterns for couples, are not statistically significant and could have arisen by chance.

In other words, there is no evidence from these figures that PVE, or any other method of payment, affected later receipt of WFTC.

⁶ Section 2.2.2 presents figures on a different base, but it is worth clarifying the difference. Of WFTC recipients in 2001, 61% were recipients in 2000. But of WFTC recipients in 2000, 72% received WFTC in 2001. This is consistent, and this pattern expected with a growing caseload.

Table 2.13 Destination of 2000 WFTC recipients by payment method

	<i>Row percentages</i>		
	<i>Unweighted base (= 100 per cent)</i>	<i>Receiving WFTC in 2001</i>	<i>Not receiving WFTC in 2001</i>
WFTC recipients in 2000			
Lone parents			
Order book	131	73	27
Cheque	11	[91]	[9]
Account	127	77	23
PVE (wage packet)	186	74	26
All lone parents	443	75	25
Couples			
Order book	203	67	33
Cheque	13	[85]	[15]
Account	108	69	31
PVE (wage packet)	80	65	35
PVE (partner wages)	29	[72]	[28]
All couples	448	68	32

Base: Panel, WFTC recipients in 2000

The destinations of the 2000 WFTC recipients may be compared with those of ENRs from the same year (Table 2.14). This is one means of establishing if there are any differences between people that might affect their take-up behaviour. It also provides a perspective on the effects of receiving WFTC.

A significant minority of ENRs went on to receive WFTC a year later. Among lone parents, some 30 per cent of ENRs from 2000 were WFTC recipients by 2001, compared with 20 per cent among couples. This may indicate that being a non-recipient is a temporary state of affairs, at least for some families (McKay and Marsh 1995). This group may have taken some months, or more, to discover that they were eligible for in-work support – what might be called ‘frictional’ non-take-up (Craig 1991).

However, some non-take-up was more long-term. Overall, 37 per cent of lone parent ENRs appear to have remained so by 2001, compared with 29 per cent among couples. This suggests that some people may face longer-term barriers to making a claim, or simply do not come across the kinds of information that may promote an application. An alternative is that some people may not believe it is worth their while claiming, especially if the likely award is relatively small.

Another difference was that ENRs in 2000 were much more likely than WFTC recipients to have incomes in 2001 that put them out of range of WFTC – 25 per cent of lone parent ENRs and 38 per cent of couple ENRs, compared with 9 per cent of lone parents receiving WFTC and 14 per cent of couples receiving WFTC. One important reason is likely to have been the level of entitlement. ENRs are entitled to lower awards than WFTC recipients. Hence, a smaller increase in income (or other change of circumstances, such as a child leaving school) is needed to move ENR families out of the WFTC eligible range.

This evidence is also consistent with rather different views about the role of WFTC, and the reasons for non-take-up. The simplest explanation is, however, that ENRs simply have lower levels of entitlement than WFTC recipients. So a given cash increase in earnings is more likely to take them out of eligibility, than the same cash increase among recipients.

It is also possible that the higher incomes, one year on, of ENRs reflects their generally higher earning power than that of recipients. Since Marsh and McKay (1993), it has been suggested that some ENRs may have trend incomes, or true incomes, somewhat above the level when interviewed for surveys. As such, they are only 'passing through' a period of eligibility. WFTC recipients, by contrast, may have rather lower longer-term incomes. The alternative interpretation (Bryson 1998) is that in-work support may 'trap' people on tax credits, and reduce their payoffs from either working longer hours or investing in ways of increasing their earning power (human capital).

Both theories – and the simpler explanation related to size of entitlement – are consistent with this particular piece of evidence. That ENRs are more likely to have earnings above WFTC eligibility, than are WFTC recipients, one year on.

Table 2.14 Destinations of 2000 WFTC recipients and ENRs

	Column percentages			
	2000 status			
	Lone parents (employees)		Couples (employees)	
	WFTC recipient	ENR of WFTC	WFTC recipient	ENR of WFTC
2001 status				
Not working (or 1-15 hours)	8	5	9	8
WFTC recipient	73	30	64	20
ENR of WFTC	8	37	9	29
Above WFTC	9	25	14	38
Self-employed	2	3	4	5
Income Support recipient ^a	5	3	5	5
<i>Unweighted base</i>	<i>407</i>	<i>122</i>	<i>358</i>	<i>404</i>

Base: Panel, WFTC recipients and ENRs in 2000

^a This group is shown separately, drawn from the non-workers. Figures prior to this point sum to the sample base (i.e. sum to 100 per cent, save for any rounding)

These figures, on the work and tax credit transitions of working families, may be compared with the equivalent transitions made by Family Credit recipients in 1999-2000. However, there are differences in the economic environment, over and above the change to WFTC, which means that caution is needed in interpreting these results.

The overall patterns, of moving into and out of work and eligibility, were quite similar, but with some clear differences. Among recipients of in-work support, the rate of leaving paid work, and particularly of returning to Income Support, was rather higher during 1999-2000 than during 2000-01 (11 per cent of lone parent Family Credit recipients from 1999 were receiving Income Support in 2000, as were eight per cent of couples receiving Family Credit, somewhat above figures for WFTC recipients for 2000-01.) This could be reflecting the fact that WFTC provides a larger margin of income compared to Income Support, than did Family Credit. Therefore, it would be even more beneficial financially to remain in work under WFTC, than it was under Family Credit. A related explanation may be that the wider pool of recipients of WFTC, compared to Family Credit, now takes in a group of more stable workers, with lower chances of returning to Income Support.

From 1999-2000, a higher proportion of lone parent (ENRs) of Family Credit went on to claim in-work support, with fewer remaining as ENRs, compared with 2000-2001. This may be because ENRs of

Family Credit are poorer, overall, than ENRs of WFTC. As such, because WFTC ENRs are rather better off they may find it easier to remain in work, without in-work support, than did the rather lower-earnings ENRs of Family Credit.

2.4.1 Destinations of 1999 Family Credit recipients

In this section we take a longer-term perspective to look at the destinations of those receiving Family Credit in 1999. As well as using the main sample to do this, we have also included original (1999) Family Credit top-up samples to help take a slightly longer-term perspective. These top-up samples were drawn to be representative of a cross-section of Family Credit recipients in 1999, and to represent a sample of new claims from earlier in that year. As such, they were known to be receiving Family Credit prior to their FACS 1999 interview, and indeed some had ceased receiving it by the time they were interviewed.

The longer-term status of these groups of Family Credit recipients is depicted in Table 2.15. By 2001, 57 per cent of those receiving Family Credit in 1999 (the ‘stock’) were receiving WFTC. However, 12 per cent of this group no longer had dependent children, and so could no longer be eligible. Among those in the main sample receiving Family Credit in 1999, 60 per cent were receiving WFTC in 2001.

Among the flow sample, those newly receiving Family Credit in 1999, under half (49 per cent) were receiving WFTC, whilst eight per cent were no longer families with dependent children.

These figures indicate a high degree of continuity among those receiving in-work support, but also with considerable change over a two-year period. Among a sample of those receiving in-work support, more than two years later still a majority were in receipt. Of course, the scope of in-work support has also increased substantially over that period.

Table 2.15 Longer-term status of Family Credit top-up samples

	Column percentages		
	FC stock top-up	FC inflow top-up	Main sample FC recipients
1999			
Unweighted base	255	483	982
Per cent receiving Family Credit	80	67	100
2000			
Unweighted base	185	345	766
Per cent receiving WFTC	63	58	67
Per cent: no dependent children	6	3	2
2001			
Unweighted base	168	310	686
Per cent receiving WFTC	57	49	60
Per cent: no dependent children	12	8	8

Base: 1999 Family Credit top-ups and recipients from main sample

2.4.2 Receipt of Income Support after leaving work

Most lone parents not in paid work of 16 or more hours, and many couples, receive Income Support⁷. However, when families receiving WFTC become non-workers, their continued receipt of WFTC (for up to six months) may act to disqualify them from receiving Income Support, and perhaps other benefits too.

Among lone parents not in work (or working 1-15 hours) in 2001, some 87 per cent received Income Support, as did 55 per cent of couples (80 per cent for all families with children, not in paid work of 16 or more hours). However, where this group reported that they were receiving WFTC, only 14 per cent said they received Income Support.

Almost all this group had stopped work during 2001 (i.e. this is not simply a confusion of names of benefits with tax credits). With average awards of WFTC of £89 per week, they may well have been ineligible for Income Support, since WFTC would count as assessable income for an Income Support assessment.

This is a small group (50 families citing receipt of WFTC whilst not in work of 16 or more hours). The following information presents what we can discover about them, but given the small base it would not be sensible to generalise these results to the wider population – which itself would be small – since the margin of error (95 per cent confidence interval) for any figures is of the order of plus-or-minus 15 per cent.

Among those who left work whilst receiving WFTC and were still receiving WFTC when interviewed, 48 per cent said they had become worse off over the last 12 months (the remainder were evenly split between saying they were better off, or no different, compared to 12 months' earlier). Among families who left WFTC in 2000 to receive Income Support in 2001 (58 families), 47 per cent said they were worse off, 11 per cent that they were better off and 41 per cent that they were about the same.

In other words, the key transition seems to be stopping work; WFTC recipients who then receive Income Support are as likely to report worse finances as those who do not.

2.5 Unsuccessful WFTC applications and previous WFTC receipt

Many of those not receiving WFTC in 2001 had received it previously, or had been rejected at some point. Some seven per cent of families with children, not receiving WFTC, had received WFTC at some point in its short history (Table 2.16). Also, five per cent had applied for WFTC and had been unsuccessful. These two groups had only a small overlap (three families) so may be taken as meaning that 12 per cent of families, not receiving WFTC, have applied for it at some point. Some 31 per cent of ENRs of WFTC have either received it before, or applied for it and been turned down – usually on the grounds of having too high an income.

⁷ JSA is not covered as base sizes are small.

Table 2.16 Previous experience of applying for WFTC in 2001; those not receiving WFTC

	<i>Column percentages</i>				
	Not working (or 1-15 hours)	ENRs of WFTC	Above- WFTC	Self- employed	All not receiving WFTC
Has received WFTC in the past	8	21	4	3	7
Has applied for WFTC but been rejected	1	10	7	4	5
- reason for rejection was income too high	[11]	90	88	75	84
<i>Unweighted base</i>	<i>1552</i>	<i>655</i>	<i>3299</i>	<i>1069</i>	<i>6545</i>

Base: Cross-section not receiving WFTC

Numbers in [] are based on fewer than 50 cases and may be unreliable.

The reasons for rejection may also be of interest. In the vast majority of cases (84 per cent) families said their rejection had been principally on the grounds of their income being too high. This was equally high among those calculated to be ENRs, as among those calculated to have incomes above the WFTC-eligible range. This could indicate that the ENRs had recently had a decrease in income – or that perhaps some did not reveal full details of all their sources of income at the research interview. In the interview respondents are asked for full details of their hours of work, and savings, in order to replicate WFTC assessment. However, it remains possible that certain answers do not fully reflect their circumstances, and that some ENRs may have other sources of income not explained, or more variable incomes that may be different at interview compared with the point of a prior WFTC application.

In Section 5.1, we also show that levels of awareness of WFTC among ENRs were higher than for other groups of workers, and higher than levels of awareness among those not working.

2.6 Summary

Whilst 18 per cent of families received WFTC, it was received by 31 per cent of lone parents and 12 per cent of couples (Table 2.1). Among families in paid work of at least 16 hours a week, 21 per cent were receiving WFTC (64 per cent of lone parents, 13 per cent of couples).

If we look at families with children sorted by income, and then look at each 'tenth' (or decile, after adjusting for family size), then families with incomes in the 30-40 per cent group (i.e below middle incomes, but better off than about one-third of families) were the income group most likely to be receiving WFTC.

Some 61 per cent of WFTC recipients in 2001 had been receiving WFTC in 2000. Just under half of the 'new' recipients were not in paid work in 2000 and just over half were already in work (Table 2.8).

Among those modelled as entitled to the childcare tax credit and reporting help with childcare costs, over one-third said that WFTC had affected their childcare use, and one-quarter their own working hours (Table 2.10).

Among lone parents receiving WFTC in 2000, 73 per cent also received WFTC in 2001. Nine per cent moved out of eligibility for WFTC due to increased income, eight per cent had stopped work, eight per cent had become eligible non-recipients, and two per cent had become self-employed, not receiving

WFTC (Table 2.14). Couples were more likely than lone parents to have moved out of eligibility for WFTC because they had higher incomes (14 per cent), though they started from having lower average awards too. Nearly two-thirds (64 per cent) of couples who received WFTC in 2000 were also receiving WFTC in 2001.

A small group of WFTC recipients who stopped work were ineligible for Income Support because they received WFTC. They reported deteriorating financial circumstances, although other families who received Income Support in 2001, having received WFTC in 2000, were just as likely to report a downturn in their finances.

Among eligible non-recipients of WFTC in 2001, 21 per cent had received WFTC at some point since October 1999 (when it was introduced). A further 10 per cent had applied for WFTC and had been unsuccessful (Table 2.16). Such rejections may have taken place before a change of circumstances that meant they were eligible at the time of interview – or could indicate that the survey assessment of eligibility is not precise.

3 Moving into work: how important is WFTC?

3.1 Introduction

This chapter looks at the role of Working Families' Tax Credit (WFTC) in families' moves into paid work. Between 2000 and 2001, 305 families taking part in the Families and Children Study (FACS) had moved into paid work of 16 or more hours, having been out of work (or working 1-15 hours) a year earlier. This comprised 163 who were lone parents in 2001, and 142 who were couples. This provides enough of a basis for analysis, though numbers become too small when looking at certain sub-groups among this overall movers-into-work group.

A more detailed analysis of movement into work, in general rather than focused on WFTC, may be found in Kasparova's (2003) report on work and childcare.

3.2 Movers into work

Among those FACS 2000 panel families who were not in paid work (of 16 or more hours) in 2000, nearly one-quarter (23 per cent) were in paid work of 16 or more hours by 2001. The link between family type and moving into work depends a great deal on whether family type is measured in the earlier year (when not working) or the later year (when in work), because family transitions are also related to employment transitions. In particular, many lone parents from 2000 had become part of working couples by 2001. And some working mothers in couples from 2000 had become non-working lone mothers by 2001.

Judged by status in 2000, 22 per cent of non-working lone parents moved into work, by 2001, compared with 24 per cent of couples (in 1990-2000 the corresponding figures were 13 per cent and 23 per cent). However, some eight percentage points of the lone parents' moves into work were associated with joining with a partner (14 percentage points were not). In other words, eight per cent of non-working lone parents from 2000 were part of a single- or dual-earner couple by 2001. By contrast, only two percentage points of the couples' moves into work were associated with a separation during the same year.

Table 3.1 Moves into work of 16 or more hours between 2000 and 2001

Column percentages			
	2000 status		All
	Lone parents	Couples	
Work status in 2001			
Lone parent working 16 or more hours	15	2	12
Single-earner couple	5	20	8
Dual-earner couple	3	3	3
Any worker in 2001	22	24	23
Unweighted base	1045	285	23

Base: Panel not in work of 16 or more hours in 2000

As measured by their family status in 2001, it would appear that chances of returning to work were *much* higher for non-working couples (whether neither worked 16 or more hours) than for lone parents. Families who had moved into work (of 16 or more hours) between 2000 and 2001 were quite evenly split (53:47) between being lone parents and couples *in 2001*, but their 2000 status was much more skewed towards lone parenthood (77:23). This illustrates the numerical significance of lone parent partnership transitions in increasing the rate of employment among (former) lone parents.

When families move into paid work, a number will be eligible for tax credits, and may apply for and receive them. Of those moving into paid work (of 16 or more hours) between 2000 and 2001 (and who were not working, or working but for fewer than 16 hours, in 2000), some 63 per cent were receiving WFTC in 2001. This comprised 76 per cent of lone parents, and 48 per cent of the couples who had moved into work of 16 or more hours during this period (Table 3.2).

Around one family in six (17 per cent) moving into work appeared to have become an eligible non-recipient (ENR) of WFTC. One-quarter of couples, but only seven per cent of lone parents, moving into paid work had incomes clearly above the range of eligibility for WFTC. Self-employment was the destination for 16 per cent of the couples moving into work, but only for four per cent of the lone parents.

Table 3.2 Movers into work (2000-2001) and WFTC status in 2001

Column percentages			
	2000 status		All
	Lone parents	Couples	
Receiving WFTC in 2001	76 ^a	48 ^a	63 ^a
Overall classification			
Employee receiving WFTC (& still eligible)	70	43	57
Eligible-non recipient of WFTC	19	16	17
Self-employed	4	16	10
Above-WFTC income	7	25	16
<i>Unweighted base</i>	163	142	305

Base: Panel no-one working 16 or more hours in 2000, but at least one in work of 16 or more hours in 2001.

^a This includes some WFTC recipients who appeared to be no longer entitled to WFTC at the time of interview, which is why the number is greater than listed in the categories below.

Among couples moving into work of 16 or more hours, it was more likely that they became single-earners (72 per cent) rather than dual-earner couples (28 per cent). However, this made no difference to the proportion receiving WFTC among couples moving into paid work of 16 or more hours (at just under half among couples). Of course, relatively few dual-earner couples receive WFTC, often because they have higher incomes. But, wages are often lower for those recently moving into work – and many dual-earner couples out of range of WFTC will have had little experience of being both unemployed (or not in work) at the same time. For the group returning to work, within the first year of returning to work, WFTC receipt was just as frequent as for dual-non-working couples becoming single-earner couples. However, it may be that dual earner couples are then more likely to leave WFTC receipt over time.

3.2.1 Rate of moving into work, and WFTC receipt, by benefit receipt out of work

Some 23 per cent of those families not in work in 2000 (or working 1-15 hours a week), were working for 16 or more hours in 2001. Similarly, 15 per cent had become workers also receiving WFTC, and five per cent had become workers also receiving Housing Benefit. It is sensible to analyse these figures by housing tenure and receipt of Housing Benefit in 2000, and this we now do.

Among non-working tenants receiving Housing Benefit in 2000, 20 per cent had moved into work of 16 or more hours by 2001 (Table 3.3). This compared with 28 per cent of tenants not receiving Housing Benefit, and 31 per cent for those in other types of tenure (owner-occupiers). This pattern, of the highest rate of return to work among non-tenants, and the lowest rate of return among tenants receiving Housing Benefit, was also true when lone parents and couples were looked at separately. Among those who had moved into work, however, WFTC receipt was relatively more common among those who had been receiving Housing Benefit when not in paid work of at least 16 hours a week. However, relatively few of the tenants had not been receiving Housing Benefit.

Even so, the greater percentage from other tenures moving into work meant that proportionately more owner-occupiers moved into work-with-WFTC, by 2001.

A small proportion of tenants moved into work and retained some Housing Benefit award – five per cent of all movers into work. This represents about one in five of all those tenants moving into work. In nearly three-quarters of cases (73 per cent) those receiving Housing Benefit on moving into work also received WFTC, leaving 27 per cent apparently receiving Housing Benefit, but not WFTC.

It is possible that Housing Benefit may not have been reassessed, and so these Housing Benefit awards may come to an end in due course. About half (52 per cent) of this small number of cases cited receiving maximum Housing Benefit, which suggests some re-assessment may have been likely – particularly since most had started work only in the last few months.

Table 3.3 Moving into work and WFTC by Housing Benefit

Row percentages				
	Unweighted base	Moved into work	2001 status	
			Work and WFTC	Work and Housing Benefit
Status in 2000				
Lone parents				
Receiving HB	775	20	14	7
Tenant, no HB	43	[28]	[14]	[0]
Other tenure	223	30	19	1
Couples				
Receiving HB	200	21	15	6
Tenant, no HB	22	[27]	[9]	[0]
Other tenure	61	34	7	0
Total				
Receiving HB	975	20	14	7
Tenant, no HB	65	28	12	0
Other tenure	284	31	16	1
Total	1330	23	15	5

Base: Not in work in 2000

Note: Percentages in [] are based on fewer than 50 cases and may be unreliable

It is possible to conduct a similar analysis by receipt of Council Tax Benefit. This benefit is available to low-income families of all housing tenures, unlike Housing Benefit which may only be claimed by tenants. Perhaps because of this wider coverage, the effect of receiving Council Tax Benefit when out of work on rates of returning to work, and receipt of WFTC, was even smaller than that of Housing Benefit.

Housing costs and moves into paid work

It is sometimes suggested that high levels of housing costs might make it more difficult for people to move into work. The evidence from analysing FACS 2000 and FACS 2001 was that the level of housing costs was not associated with the rate of returning to work. This was true even when analysing separately by housing tenure, and whether a lone parent or a couple. The level of housing costs among those moving into paid work were very similar to those not moving into paid work (Table 3.4). It is possible that some other variables are mediating the effect of housing costs on moving into work, and might call for a more detailed multivariate analysis of this point, but this has not been explored.

Table 3.4 Gross housing costs of movers and non-movers into work

<i>Median weekly pounds</i>			
Average (median) gross housing costs in 2000			
	<i>Unweighted base</i>	Movers into work of 16 or more hours	Those remaining out of work (or 1-15 hours)
Lone parents			
Mortgage	125	£62	£51
Social tenant	889	£48	£47
Private tenant	165	£80	£75
All	1318	£49	£48
Couples			
Mortgage	68	£71	£46
Social tenant	261	£50	£46
Private tenant	38	£74	£82
All	402	£50	£46

Base: Panel not working in 2000

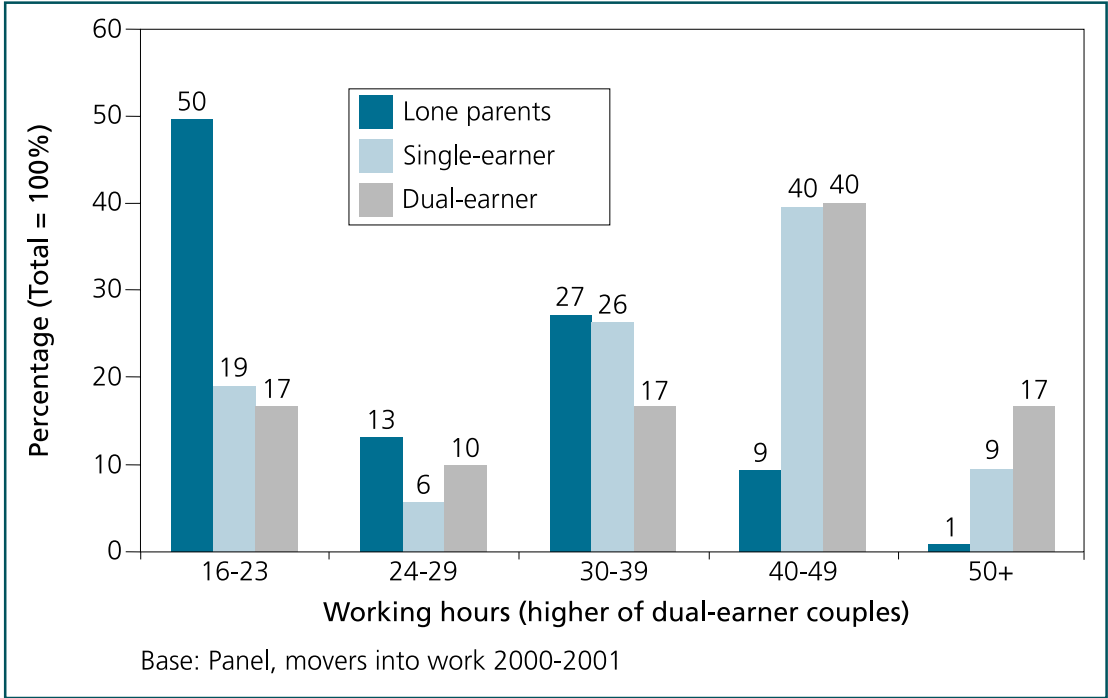
New Deal for Lone Parents

A small number of lone parents (69) said in 2000 they had been on the New Deal for Lone Parents (NDLP) at some point since its introduction. Of this group, nearly half (49 per cent) had moved into work between 2000 and 2001. Overall, 45 per cent were working and receiving WFTC in 2001 – meaning that very few of the New Deal group moved into work that was unassisted by WFTC (well over nine in ten of those who had moved into work having been on NDLP received WFTC). Among non-working lone parents who had been through NDLP by 2000, 19 per cent were working and receiving Housing Benefit; 18 per cent working and receiving Council Tax Benefit, in 2001.

3.3 Hours of work of movers into work

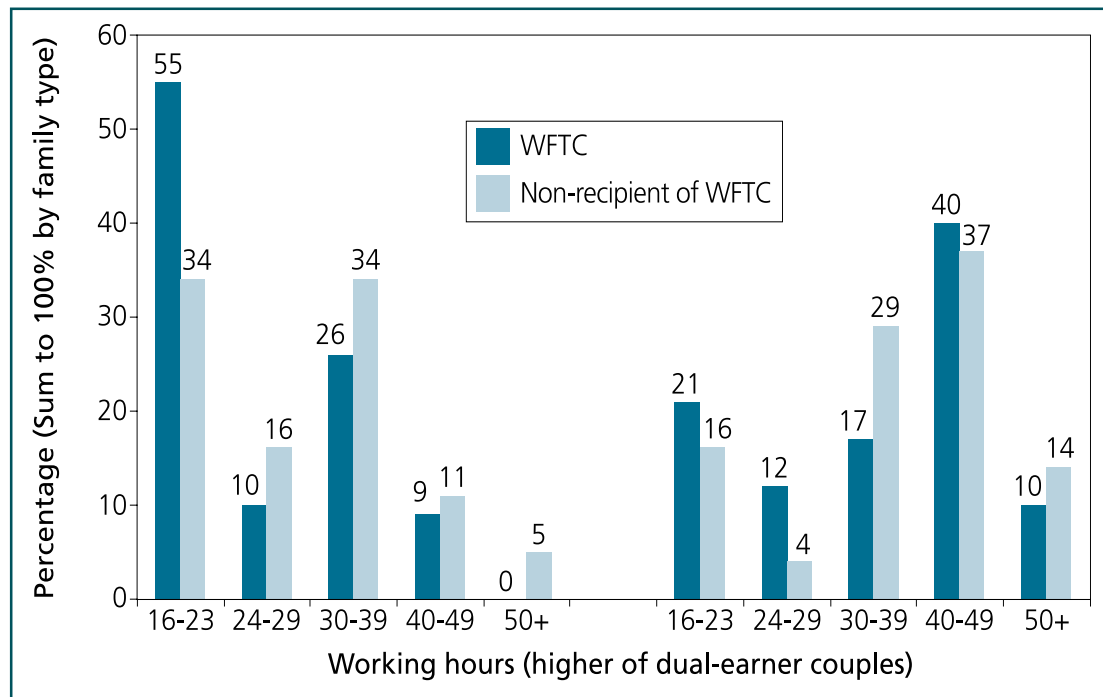
Lone parents moving into work tended to work rather shorter hours than workers from couples (Figure 3.1). Very few lone parents worked for as many as 40+ hours a week, whilst over half of couples had one worker in this range. Among dual-earner couples, and looking at the person working the longer hours, 57 per cent had one person working for 40 or more hours a week, compared with 49 per cent among single-earner couples.

Figure 3.1 Weekly working hours of movers into work



The hours worked by couples and lone parents returning to work were also linked to their receipt of WFTC. Overall, WFTC recipients tended to work shorter hours, among those returning to paid work, than did non-recipients. As shown in Figure 3.2, some 55 per cent of lone parents moving into work and then receiving WFTC, were working between 16 and 23 hours. This compared with 34 per cent of lone parents moving into work and not receiving WFTC. None of the lone parents moving into work, and receiving WFTC, worked for 50 or more hours, compared with five per cent of the non-recipients. The same pattern was true among couples – shorter working hours among those receiving WFTC on moving into work, compared to non-recipients - but the size of the effect was less pronounced.

Figure 3.2 Working hours of movers into work by family type and WFTC status



It is, of course, true that those working longer hours would tend to have higher earnings than those working shorter hours, other things being equal. This alone might disqualify those working longer hours from WFTC eligibility. An alternative view is that people may be able to use WFTC to enable them to have the same income, but working fewer hours than without WFTC. Certainly, the high proportion of lone parents working for 16-23 hours shows signs of people working around family commitments.

3.4 Entry wages

3.4.1 Weekly take-home pay of new workers

Families taking paid work move into a range of circumstances – from ENRs of WFTC, to incomes well beyond WFTC. The wages they receive are quite diverse. As shown in Table 3.5, most WFTC recipients had weekly (net) wages of less than £150 per week: most non-recipients had weekly wages of £150 per week or often rather more. Among WFTC recipients, lone parents were bringing home an average of around £110 per week, compared with £155 for couples. This partly reflected the longer hours generally worked by couples rather than lone parents.

Table 3.5 Weekly wages of movers into work

	Column percentages			
	Lone parents		Couples	
	WFTC recipient	Non-recipient	WFTC recipient	Non-recipient
Weekly wages				
Up to £74.99	28	[16]	18	20
£75 < £150	49	[24]	33	20
£150 < £225	18	[34]	30	20
£225 < £300	3	[16]	12	25
£300+	1	[11]	7	16
Median	£102	[£161]	£141	£178
Mean	£111	[£255]	£155	£197
<i>Unweighted base</i>	<i>124</i>	<i>39</i>	<i>73</i>	<i>69</i>

Base: Panel no-one working 16 or more hours in 2000, but at least one in work of 16 or more hours in 2001

Numbers in [] are based on fewer than 50 cases and may be unreliable

3.4.2 Hourly wage rates of new workers

The lower weekly wages of WFTC recipients compared to non-recipients, and of lone parents compared to couples, must be at least partly due to their shorter working hours. As shown above, these groups with lower wages also had shorter working weeks. For this reason it is important also to look at wages per hour worked – if we are interested in some measure of how well the entry jobs are remunerated. In this section, we look only at workers who were able to state a gross hourly rate of pay for their job – whilst only 58 per cent of all employees could state an hourly rate, this rises to 80 per cent among those moving into paid work between 2000 and 2001.

The National Minimum Wage (NMW) was introduced in April 1999. This was originally set at £3.60, increased to £3.70 an hour in October 2000, and then to £4.10 in October 2001. There is also a separate rate for those aged 18-21 and for the first six months in a new job where the employee is over 21 and is undergoing accredited training. This stood at £3.50 after October 2001, an increase from £3.20 which had prevailed since June 2000, having originally been set at £3.00. In October 2002 the NMW rose to £4.20/£3.60.

By and large, those moving into paid work between 2000 and 2001, and who were able to give an hourly pay rate, were being paid at rates in excess of the NMW, with a median hourly wage of close to £4.50. There were too few partners moving into paid work to analyse reliably – though of these some 90 per cent were receiving pay rates above the NMW. Among main respondents, 60 per cent of those receiving WFTC on returning to work appeared to be earning above the NMW, compared with 72 per cent of the group not receiving WFTC (Table 3.6).

A significant minority had hourly earnings between the development/training rate, and the main NMW. Few of this group were aged 21 or under, and should only have been receiving such pay rates if they were receiving accredited training. However, as this group were all movers into work in the last year, they are more likely to be paid the training rate than more established employees. It is not possible to determine absolutely whether such training was actually being provided, but only 24 per cent of those paid in this range said they had been offered work-related training in the last 12 months.

A few caveats are in order. First, the sample bases for this analysis are fairly small. Second, the figure for entry wages for non-WFTC recipients may be biased downwards, because the ability to state an hourly rate is itself associated with having relatively lower pay. Those not citing hourly rates (about one-fifth of movers into work) will have generally been earning more. Third, the survey fieldwork (September-December 2001) straddled the timing (October 2001) of a major increase in the main NMW, from £3.70 to £4.10, so that the earnings figures that people cited *may* have been for a period just prior to this increase.

Table 3.6 Moving into work and receipt of the National Minimum Wage (NMW) – main respondent only

	Column percentages		
	Receiving WFTC	Not receiving WFTC	All respondents returning to work
Below under-22 rate	1 ^a	0	*
Between under-22 rate and NMW ^b	24	16	21
Exactly NMW	16	13	15
Above NMW	60	72	64
Mean wage rate	£4.81	£5.23	£4.94
Median wage rate	£4.30	£4.57	£4.49
<i>Unweighted base</i>	<i>133</i>	<i>65</i>	<i>198</i>

Base: Panel no-one working 16 or more hours in 2000, but at least one in work of 16 or more hours in 2001 * indicates less than 0.5%, but more than zero

^a One respondent earning £3.25 an hour. ^b Almost all of this group were older than 22 – but *may* have been eligible for the ‘development rate’ on grounds of training, etc.

3.5 Incomes in and out of work

Previous analysis of the 1999 survey found that lone parents receiving Family Credit were about £40 a week better off than they would have been if not working and receiving Income Support. For couples this margin was £36 (Marsh *et al.*, 2001: p 272). These figures were net of childcare and the costs of travel to and from work – taken gross, the levels of gain were £57 and £41. All these figures take account of housing costs and Council Tax, taking into consideration payment of Housing Benefit and Council Tax Benefit, both in and out of work.

Analysis of the 2000 data suggested that awards of WFTC were around £30 per week higher than would have been the case under Family Credit, had it continued to exist (McKay, 2002: p 49). We should therefore expect that the margin of income that work plus WFTC provides over non-work plus Income Support will have increased substantially. There have been other changes that may also have increased the margin – the total disregard of maintenance within WFTC, and the more generous treatment of childcare costs within WFTC, in particular. Conversely, rates of Income Support have also become more generous, and since April 2001 lone parents have benefited from a higher earnings disregard within Income Support. In due course, some Income Support recipients with child support payments will also benefit from a maintenance disregard. These latter changes may reduce the improvement in income that comes from working and receiving WFTC.

It is therefore timely to consider the difference that WFTC makes to income. In this section, we examine the *actual* incomes of WFTC recipients, who had previously received Income Support. These incomes are compared against the *hypothetical* incomes they would receive if they were not working and instead received Income Support. This is, of course, only a subset of those receiving WFTC, many of whom have no recent experience of receiving Income Support. But, it is the group likely to be perceiving the effect of WFTC in increasing their incomes, over what they would receive if not working.

Before presenting this analysis, it is important to distinguish different approaches that may be used to look at the gains from working. No one approach is ideal, but each provides potentially useful information.

One approach, perhaps the most natural in a longitudinal study, is to compare the incomes that people have in work, compared with any previous period when they were not working. So, we could look at families who moved into work between 2000 and 2001, and compare incomes at both points. Whilst potentially interesting, this would not take account of other things that had also changed over time – perhaps children leaving home – that would have affected people's income even if they had not moved into work.

A common approach using information on cross-section surveys is to model the incomes that non-workers would have, if they moved into work. This shows what the gain would be, if they found work. This requires various assumptions to be made about the level of earnings they would have, the hours they would work, childcare use, and so on. This approach is also potentially helpful. What it does not identify is which families are more likely to move into work over time. And, families moving into work may be systematically different from those remaining out of work – in particular, families more likely to move into work may be those with the biggest gains from being in work. This may mean that those remaining out of the labour force face lower than average gains from working, compared to all families and particularly to families in work.

A third approach was used in Marsh *et al.* (2001). This looked at Family Credit recipients from 1999, and compared their actual incomes in work, with what they would receive if they were receiving Income Support. This was presented as being the gain from working at least for Family Credit recipients. It would be possible to replicate the results of this comparison for WFTC.

However, the gains shown would be rather large, reflecting the fact that WFTC is received by families with a wider range of earnings than under Family Credit. Some families with high earnings, and low WFTC awards, would be very much better off than if they were receiving Income Support, even if WFTC did not exist. The relevance of some of these large gains would be lost on those families expecting to move into work only if assisted by at least average awards of WFTC.

For these reasons, we adopt a fourth approach that combines some panel information with information based on modelling entitlements. It is designed to give an accurate picture of how much families would gain if they left Income Support, and instead were working at least 16 hours a week and receiving WFTC. So, we start with families who received Income Support in 2000, but who were receiving WFTC when interviewed in 2001. We then calculate (or 'model') the income package that they would have if they were to be transported back to Income Support in 2001, using their characteristics as they were in 2001. This could be quite different from the amount they received in Income Support a year earlier. This out-of-work income is then compared to their actual incomes whilst working and receiving WFTC.

Results from this analysis are shown in Table 3.7.

After in-work expenses (comprising childcare costs and travel), WFTC recipients were an average (mean) of £64 a week better off than they would have been if out of work receiving Income Support. The median figure was £50 and therefore 50 per cent of those who moved into work gained at least £50 per week. Housing costs have not been deducted from the in-work figure, but appropriate amounts of Housing Benefit (and Council Tax Benefit) have been added to both the out-of-work total and the in-work total – hence the difference takes into account housing costs. Maintenance has also been included in this equation.

The 'gross' income margin, before deducting travel and childcare, was £83.

Table 3.7 Incomes in and out of work: WFTC recipients (employees still WFTC-eligible)

	<i>£ per week, average (means)</i>	
Total income in work (actual figures)	£270	
including ...		
Earnings		£130
WFTC ¹		£90
Total income out of work (some modelled entitlements)	£187	
including ...		
Income Support		£100
Income gain, before travel and childcare	£83	
Income gain, after travel and childcare	£64	

Base: WFTC recipients in 2001, still WFTC-eligible, receiving Income Support in 2000

¹ This is the actual amount of WFTC received, not modelled entitlement. Substituting the modelled figure makes around £2 difference to the figures

The income gain for couples (£71) was slightly higher than for lone parents (£61). This is initially surprising, since lone parents get an equivalent rate of WFTC to couples, and any maintenance is disregarded. It occurred, within this particular sample, because couples tended to work longer hours and have much higher earnings than lone parents, and this was enough to offset these factors that might have been expected to show a higher gain for lone parents – which most hypothetical calculations would do.

These calculated figures assume that families would have no earnings when not in work. In fact, some Income Support recipients may work for up to 15 hours a week and retain their benefit. Lone parents have, since April 2001, had an earnings disregard of £20 within Income Support. If we include in the figures the possibility that Income Support recipients have part-time jobs (of less than 16 hours a week), then the gains from being in paid work are reduced by the size of the level of earnings (up to the level of the disregard applying for each type of family). However, from this would also need to be deducted any in-work expenses, such as childcare, that would need to be covered. Conversely, many recipients of WFTC have no recent experience of unemployment (or Income Support), but claim WFTC having been in work. For this group, any cash is clearly additional (leaving aside any behavioural changes), and the calculation of gains from working is less directly relevant.

3.6 Summary

One-quarter (23 per cent) of those not in paid work of 16 or more hours in 2000, had moved into work of 16 or more hours by 2001. Half of the lone parents moving into paid work had jobs where they worked for 16-23 hours a week (Figure 3.1).

Among those moving into work between 2000 and 2001, 63 per cent were receiving WFTC in 2001 (76 per cent for the lone parents, 48 per cent for the couples – see Table 3.2). A further 17 per cent appeared to be eligible for WFTC, but not receiving it. WFTC receipt was more common among those working shorter hours than average, particularly among lone parents.

Those receiving Housing Benefit were less likely than average to have moved into work, both compared with other tenants and those in other housing tenures (Table 3.3). However, the level of rents itself did not appear to affect the rate of moving into paid work – among tenants, those with higher rents were as likely, or not, to move into work as those with lower housing costs.

There was a strong association between having been on the New Deal for Lone Parents, and receiving WFTC, having moved into paid work of 16 or more hours.

Most movers into work had pay rates above the level of the National Minimum Wage (Table 3.6), with an average hourly wage rate of £4.94.

Families receiving WFTC in 2001, having received Income Support in 2000, were estimated to be £64 a week better off than if they were not working, and instead receiving Income Support.

4 WFTC recipients: changes in work

4.1 Introduction

This chapter looks at the role of Working Families' Tax Credit (WFTC) in families' changing working arrangements, and analyses family labour supply.

Sometimes, in-work support is criticised for potentially reducing the likelihood that families will go on to higher earnings, and move off WFTC (eg Bryson 1998). That is because of the 'poverty trap' where each extra pound of earnings leads to a significant reduction in payment of in-work support. Therefore, there is less incentive to work longer hours, or to invest in improving human capital through additional training or education.

It is, however, not easy to conclusively prove or disprove such a theory. Many families do leave in-work support – some because of higher earnings, some because they stop work. But it is difficult to find a relevant comparison group, against which rates of increasing earnings, hours of work and so on may be most sensibly contrasted. Eligible non-recipients (ENRs) are a possibility, but this study and previous research (Marsh and McKay 1993) has indicated that ENRs are an unusual group, who may be generally better-off families simply observed during a dip in their living standards. If so, we would expect ENRs to show more diverse patterns of earnings change anyway. We also know that recipients of in-work support have quite different characteristics compared with other families (Marsh *et al.* 2001). Some of these characteristics (shorter working hours, social tenants) may themselves drive future earnings profiles.

It is also true, by definition, that those continuing to receive WFTC over several claims will not be those who have had significant increases in earnings – the rules of eligibility would mean that large improvements of this kind would lead to being disallowed WFTC. This does not mean that people were 'trapped' in their receipt of WFTC. It does indicate the conceptual difficulties of providing definitive answers to some of these work-incentive questions.

What the analysis can do is to track the fortunes of groups of WFTC recipients. Some of these changes may be compared against those of other families, those not receiving WFTC.

4.2 Changes in hours of work among WFTC recipients

Families receiving WFTC may change their working hours over time. It may be argued that the effect of the taper is to provide an incentive to reduce hours of work, or that the taper provides a disincentive to increase working hours (the 'poverty trap'). Conversely, the operation of the taper only applies at each renewal point, so that recipients may not be fully aware of the consequences of changes in working hours. The taper rate was reduced from 70 per cent to 55 per cent when WFTC replaced Family Credit. That may be expected to reduce the impact of the poverty trap for those facing it, whilst extending the effect of the taper to a larger group of people.

The extra generosity of WFTC (through the reduced taper and other changes) in fact introduces both 'income effects' and 'substitution effects' into people's labour supply behaviour. The income effect means that people can obtain the same income by working fewer hours, encouraging them to reduce their working hours. The substitution effect is that, by lowering the taper and increasing the value of each additional hour worked, there is an incentive to work longer hours. The combined effect on working patterns is therefore uncertain in economic theory.

There may also be differences between this theory and the reality facing couples' work participation. The theory suggests that couples are well informed about the effects of their working decisions on their overall household incomes. If they operate independently, the effect of one person working an extra hour may be to give them a high reward, at the expense of the other losing income (higher earnings leading to lower WFTC awards).

It is easier to explain the situation for lone parents, because there is only one potential worker to describe, compared to two workers for couples and hence a much wider range of possible working arrangements, and changes over time. The changes in working hours for lone parents during 2000-2001 are shown in Table 4.1. WFTC recipients from 2000 are also divided into those who left WFTC by 2001, and the clear majority who remained receiving WFTC by 2001. Taken as a group, one in three lone parents receiving WFTC in 2000 were working exactly the same hours in 2000 as in 2001. A similar number – 31 per cent – were working for more hours, whilst one in five (21 per cent) were working but for fewer hours. A further 10 per cent had stopped working.

There were smaller numbers who were not working in either year. For this group, WFTC receipt must have depended on a previous job that they had stopped by the time of interview.

The breakdown by WFTC transitions shows that 38 per cent of continuing WFTC recipients were working exactly the same hours in each year, with 33 per cent increasing their working hours and 23 working fewer hours. So, the net balance is towards increasing rather than decreasing hours of work. Among lone parent WFTC recipients from 2000, who were not receiving WFTC in 2001, some 28 per cent had stopped work. Among the remainder, the single largest group was those who had increased their hours of work (and may have no longer been eligible for WFTC as a result).

Table 4.1 Working hours changes for WFTC recipients from 2000: lone parents

	<i>Column percentages</i>		
	WFTC in 2000 and 2001	WFTC in 2000, non- recipient in 2001	All WFTC recipients from 2000
Lone parents (from 2000) working hours 2000-2001			
Identical hours	38	18	33
More hours	33	26	31
Fewer hours	23	18	21
Stopped working	4	28	10
Started working	3	1	2
Not working both years	*	10	3
<i>Unweighted base</i>	<i>345</i>	<i>113</i>	<i>458</i>

Base: Panel survey

Those lone parents who were working for 30 or more hours in 2000 were more likely to have reduced their working hours than those working for 16-29 hours. Conversely, those lone parents working 16-29 hours were the more likely to say they had increased their working hours (Table 4.2), by 38 per cent compared with 24 per cent of those working 30 or more hours. It is not clear why such 'convergence' may be occurring. Those with young children (under 5) were the group of lone parents most likely to have started work, whilst those with children aged 5-10 were the most likely to have increased their working hours. This suggests some adjustment in working patterns associated with family change. Similarly, where lone parents were responsible for one child fewer in 2001 than 2000, they were twice as likely to increase their hours as those responsible for one child more – though numbers are too small to be completely reliable.

However, large numbers of both groups were continuing to report the same working hours in each year.

Table 4.2 Working hours changes for WFTC recipients from 2000: lone parents

	<i>Column percentages</i>		
	Working 30+ hours	Working 16-29 hours	All
Lone parents (from 2000) working hours 2000-2001			
Identical hours	43	37	38
More hours	24	38	33
Fewer hours	30	20	23
Stopped working	3	4	4
Started working	0	0	3
Not working both years	0	0	*
<i>Unweighted base</i>	<i>110</i>	<i>222</i>	<i>345</i>

Base: Panel survey

A similar analysis for couples is complicated by two factors. First, the need to consider the situation for two potential workers rather than one. Second, the possibility that couples split up between waves – which is a significant possibility among couples receiving WFTC.

We begin by looking separately at the main respondents, and their partners, among couples receiving WFTC in 2000. The work transitions (2000-01) for mothers in couples receiving WFTC in 2000 are shown in Table 4.3. Overall, close to half (46 per cent) were not working in both years – suggesting it is the partner's job that forms the basis of the WFTC application. Similar numbers (19 per cent) started or stopped working. There were couple mothers starting and stopping work among those leaving WFTC between 2000 and 2001; of course, this may have been the cause of the change of tax credit status. Among continuing WFTC recipients, the net balance was to have similar working patterns for couple mothers in employment over time (seven per cent continued with identical working hours, five per cent worked more hours, five per cent worked fewer hours).

As with lone parents, couple mothers were more likely to increase their working hours if they were working for 16-29 hours in 2000. Conversely, those working for 30 or more hours were more likely to reduce their hours of work.

Table 4.3 Hours changes for WFTC recipients from 2000: couple mothers

	<i>Column percentages</i>		
	WFTC in 2000 and 2001	WFTC in 2000, non- recipient in 2001	All WFTC recipients from 2000
Couple mother (from 2000) working hours 2000-2001			
Identical hours	7	7	7
More hours	5	5	5
Fewer hours	5	3	4
Stopped working	15	29	19
Started working	17	22	19
Not working both years	51	35	46
<i>Unweighted base</i>	<i>296</i>	<i>137</i>	<i>433</i>

Base: Panel survey

The aggregate picture was also similar for partners in couples (Table 4.4). Among those continuing to receive WFTC, roughly equal numbers of partners began/stopped working, and very similar numbers increased/decreased their working hours. Ten per cent of couples receiving WFTC in 2000 had separated, with no 'new' partners, between 2000 and 2001.

Relatively few partners were working for fewer than 30 hours a week – and this group were the most likely either to increase their working hours, or to stop working altogether.

Table 4.4 Hours changes for WFTC recipients from 2000: couple fathers

	<i>Column percentages</i>		
	WFTC in 2000 and 2001	WFTC in 2000, non- recipient in 2001	All WFTC recipients from 2000
Couple father (from 2000) working hours 2000-2001			
Identical hours	20	7	16
More hours	13	15	14
Fewer hours	13	5	10
Stopped working	11	23	15
Started working	12	13	13
Not working both years	23	22	23
Partner left	8	16	10
<i>Unweighted base</i>	<i>296</i>	<i>137</i>	<i>433</i>

Base: Panel survey

It is possible to cross-classify couples by the changes in working hours of both the main respondent and any partner. However, this serves mostly to reveal the considerable dynamics taking place within the WFTC caseload. Within the table (Table 4.5), 'total percentages' show the complete breakdown of these couples' changes in working hours. It is difficult to discern any systematic patterns from this – the 296 cases populate 41 of the 42 possible table cells. Overall, however, it is difficult to detect a trend towards either greater or lesser working hours among couples remaining on WFTC in 2000 and 2001.

Table 4.5 Working hours changes for WFTC recipients in 2000 and 2001: couple mothers and fathers taken together

	<i>Total percentages</i>					
	Couple mother (from 2000) working hours 2000-2001					Not working both years
	Identical hours	More hours	Fewer hours	Stopped working	Started working	
Couple father (from 2000) working hours 2000-2001						
Identical hours	2	1	1	1	2	12
More hours	1	1	2	1	1	7
Fewer hours	1	*	1	1	1	9
Stopped working	1	1	*	*	1	7
Started working	0	2	1	1	2	6
Not working both years	5	3	2	2	2	9
Partner left	3	2	2	*	1	*

Base: Panel survey couples from 2000 receiving WFTC in 2000 and

Unweighted N = 296. Note * = less than 0.5% but more than zero

4.3 Dual-earner couples

This section looks specifically at transitions from single to dual-earner status among couples.

Around half of WFTC recipients are lone parents. The majority of couples receiving WFTC have only one earner – dual-earner status tends to be associated both with higher incomes, and with non-take-up of WFTC among those eligible. However, some single-earner couples receiving WFTC do become dual-earner couples, and vice versa. Using longitudinal data it is possible to track such transitions. It soon becomes apparent that the range of transitions is actually quite wide, and includes couples becoming lone parents in addition to simple work transitions.

Table 4.6 shows the 2001 work status of couples receiving WFTC in 2000 analysed by their work status in 2000. Among single-earner couples receiving WFTC, one year later 16 per cent had become dual-earner couples, with 72 per cent remaining as single-earner couples. The remaining 14 per cent were split between becoming non-working couples, non-working lone parents and lone parents working for 16 or more hours a week. Among dual-earner couples receiving WFTC, one year later 62 per cent were still dual-earner couples, but with 17 per cent having become single-earner couples, and as many as 18 per cent having become lone parents (the majority in paid work of 16 or more hours).

Looking just at those remaining as couples between 2000 and 2001, having received WFTC as a couple in 2000, the balance between dual-earner couples becoming single-earners, and single-earner couples become dual-earners, was fairly even. However, a fair proportion of couples receiving WFTC became lone parents – with more of the dual-earner couples separating than among the single-earner couples. This makes the picture rather more complex. However, it does confirm that most dual-earner couples receive WFTC for only short periods of time.

Table 4.6 WFTC transition status and joint working status (couples in 2000)

Column percentages		
	WFTC recipient in 2000	
	Single-earner in 2000	Dual-earner couple in 2000
Work status in 2001		
Couple single-earner	72	17
Couple dual-earners	16	62
Couple no earners (or 1-15 hrs)	5	2
LP worker	3	13
LP non-worker (or 1-15 hrs)	5	5
Unweighted base	323	93

Base: 2000 panel couples families receiving WFTC

There are, of course, relatively few dual-earner couples receiving WFTC. This makes it difficult to conduct further analysis of the destinations of dual-earner couples from WFTC. In Table 4.7 we analyse couples’ status in 2001, according to whether they remained receiving WFTC, or instead were no longer receiving it (perhaps through higher incomes, perhaps because they ceased work). As might be expected, those receiving WFTC in both years showed greater stability of status, generally speaking, among the single-earner couples. Many of those leaving WFTC receipt moved from being

single-earner couples to dual-earner couples (33 per cent), compared with 10 per cent of those continuing to receive WFTC. This transition to dual-earner couples might have taken some couples out of eligibility for WFTC, of course, following a rise in total earnings.

The picture for dual-earner couples was less clear, though the sample is relatively small. However, among those dual-earner couples receiving WFTC in 2000 and 2001, 25 per cent had become lone parents receiving WFTC in 2001. Also 23 per cent were receiving WFTC as a single-earner couple in 2001. Among those moving off WFTC, dual-earner couples were relatively more likely to remain dual-earner couples – rather than either separating or having one adult cease paid work.

Table 4.7 WFTC transition status and joint working status (couples in 2000)

	<i>Column percentages</i>			
	2000 status			
	WFTC->WFTC		WFTC->not receiving WFTC	
	Single-earner in 2000	Dual-earner couple in 2000	Single-earner in 2000	Dual-earner couple in 2000
Work status in 2001				
Couple single-earner	84	[23]	37	[13]
Couple dual-earners	10	[52]	33	[70]
Couple no earners	2	[0]	13	[4]
LP worker	4	[25]	0	[2]
LP non-worker	*	[0]	17	[10]
<i>Unweighted base</i>	<i>240</i>	<i>45</i>	<i>83</i>	<i>48</i>

Base: 2000 panel couples families receiving WFTC

Note: * = less than 0.5% of cases, but more than zero

4.4 Summary

Among lone parents receiving WFTC at 2000 and 2001, 38 per cent were working the same hours, 33 per cent more hours, and 23 per cent fewer hours (Table 4.1). The picture for couples was more complex. By and large the number working more hours was balanced by the number working fewer hours, with a significant proportion of couples continuing to work the same hours. Among lone parents, hours increases were more likely among those working shorter hours, and hours decreases among those working longer hours than average. This was somewhat linked to family circumstances.

Among couples, there was a very wide range of changes in hours of work and work status. However, the number of single-earner couples receiving WFTC in 2000 who became dual-earner couples in 2001 was broadly equivalent to the number of dual-earner couples becoming single-earner couples. However, there were too few two-earner couples receiving WFTC in 2000 to conduct very detailed analysis.

5 WFTC awareness and take-up

5.1 Introduction

In this chapter we examine levels of awareness of Working Families' Tax Credit (WFTC), and some of its main rules. We then look at what proportion of families, apparently eligible for WFTC, were receiving it – or 'take-up'.

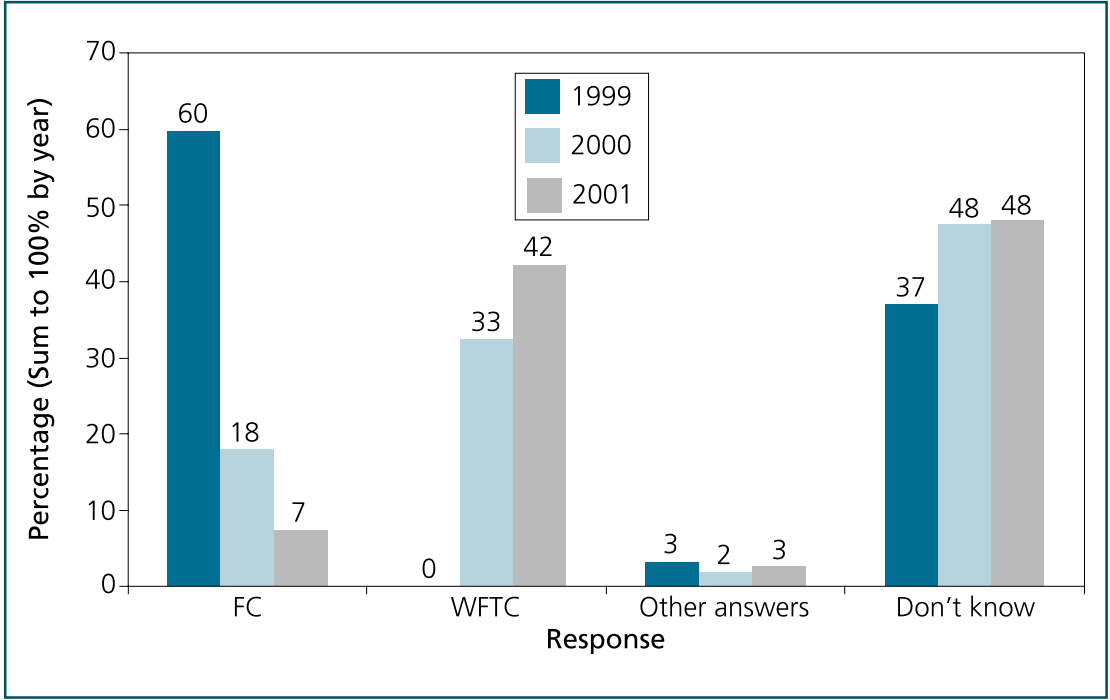
5.2 Awareness

WFTC had existed for less than two years when interviews for FACS 2001 began. By contrast, Family Credit had been around for over ten years when fieldwork began for FACS 1999. We should not be surprised if WFTC has not yet built up the levels of awareness and knowledge reached by Family Credit.

And so it turns out. In 1999, Family Credit awareness was around 60 per cent of low-income families (excluding recipients of Family Credit and WFTC). By 2001, WFTC was named by 42 per cent of low-income families⁸, up from 33 per cent the year before. Even so, close to half of respondents did not provide an answer to this question (Figure 5.1). It should be remembered that this question is about the name of the tax credit. People may be aware that in-work support is available to families with children, even that the system has changed, without knowing the particular name of WFTC.

⁸ Higher income couples have been removed from the 2001 sample to make this comparison more valid.

Figure 5.1 Awareness of name of ‘in-work payment for families with children’ among low-income families (excluding Family Credit/WFTC recipients)



Levels of awareness are potentially vulnerable to respondents’ learning during a panel study. The Figure 5.1 gives no particular grounds for this concern; 67 per cent who couldn’t name WFTC in 2001, had also been unable to name WFTC in 2000. Conversely, 59 per cent of those unable to answer in 2000, also registered a ‘Don’t know’ response in 2001. These concerns about learning during a panel do mean that caution is required in interpreting the answers to such questions. A further caution is that the pool of families receiving in-work support has been increasing, so that a lower proportion of families is being asked this question each year.

Overall, lone parents were more likely to correctly cite the name ‘WFTC’ than were low- and moderate-income couples, by 48 per cent to 38 per cent. However, awareness among eligible non-recipients (ENRs) of WFTC – at 53 per cent citing WFTC – was higher than among those not in work (43 per cent), moderate-income workers (41 per cent), and the self-employed (32 per cent). It is not the case that ENRs have particularly low levels of awareness. Whilst awareness could be higher, a significant fraction are apparently aware that such a form of cash support is available. As we saw in Section 2.5, some 31 per cent of ENRs were former applicants for WFTC.

5.2.1 Run-out points for WFTC

Many families are clearly aware that WFTC exists. This does not mean that they believe it is something that they themselves could qualify for. Indeed, following increases in WFTC rates, especially compared to Family Credit, the gap between people’s actual earnings limit for WFTC, and what they perceive to be the limit, is very high. We now analyse what people perceive to be their ‘run-out’ point, compared with what we calculated it really was.

As shown in Figure 5.2, the single most common reply is £200 a week. All family types with children do, in fact, have higher run-out points than this (see Figure 5.3). Summary figures of actual and perceived run-out points - by income, work and WFTC group - are shown in Table 5.1. A high

proportion (32 per cent) declined even to guess what the run-out point might be, most commonly among lone parents not in paid work of 16 or more hours a week (49 per cent did not even guess). Non-workers gave the lowest figures for their supposed WFTC run-out point.

Whilst the table also shows this group to have the lowest calculated run-out point, this is mostly a reflection of the fact that it includes no childcare spending. Including childcare spending likely to be incurred in work would take that particular figure up to, and often beyond, that of other groups – since non-workers more often have younger children and larger families than workers, which would mean higher childcare spending. In other words, the gap between the perceived and actual WFTC run-out points for non-working families may be even greater than shown here, certainly for those (lone parents more than couples) needing to spend money on childcare.

Table 5.1 Actual and perceived run-out points for WFTC

	<i>Average (mean) pounds per week</i>		
	Unweighted base (for perception question)	Perceived WFTC run-out point	Calculated WFTC run-out point
Not working (or 1-15 hours)	414	£156	£293
ENR of WFTC	390	£227	£318
WFTC recipient	767	£233	£313
WFTC+10%	296	£264	£315
WFTC+(10-65)%	980	£269	£314
WFTC+65%+	978	£295	£300
Self-employed	703	£263	£315
All	4528	£253	£308

Base: Cross-section sample, prepared to estimate a WFTC run-out point

Figure 5.2 Perceived run-out points for WFTC

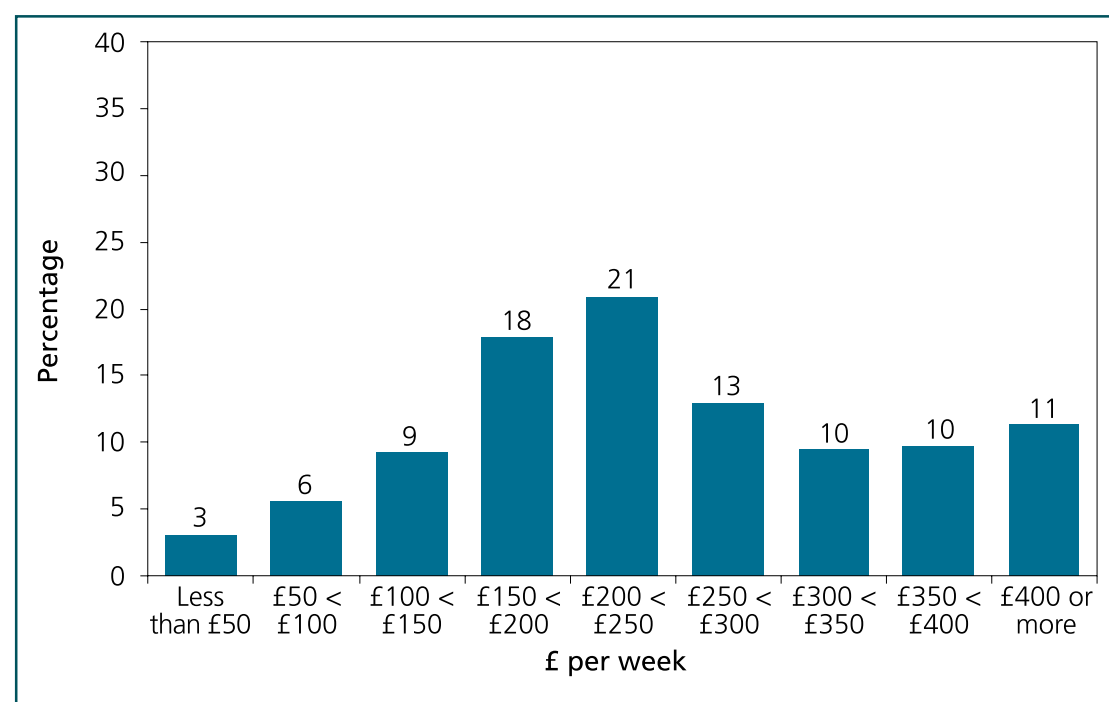
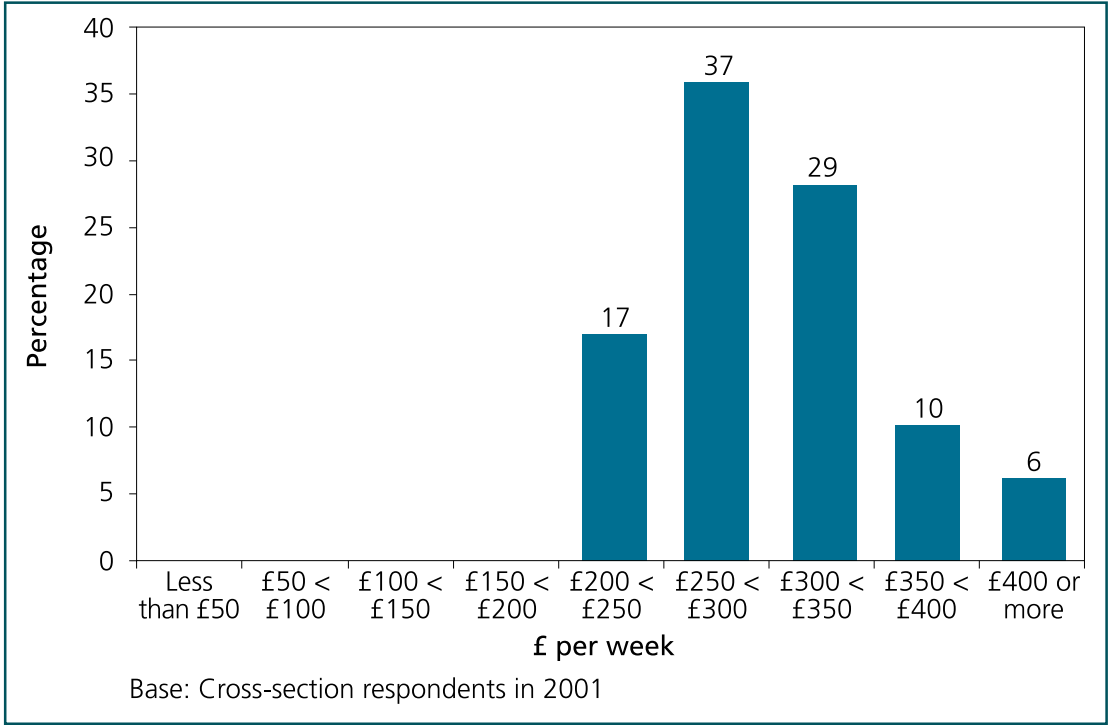


Figure 5.3 Calculated run-out points for WFTC



5.3 Take-up of WFTC

Our estimates from the FACS Surveys show WFTC take-up increasing from 62 per cent in 2000 to 67 per cent in 2001 (Table 5.2). There is a margin of error around each figure, owing to sampling, but (to be clear) this increase is statistically significant.

The expenditure-based take-up rate was 78 per cent, compared with 76 per cent in 2000. This implies that many of those now taking up their WFTC entitlement have smaller than average entitlements. Rates of take-up have risen most quickly for families with relatively small entitlements, as shown later in Figure 5.4. This explains why the proportion of eligible families receiving WFTC has risen more quickly than the expenditure-based take-up figure.

Take-up figures for couples (55 per cent) remain well below figures for lone parents (80 per cent), but the increase for couples during 2000-2001 was six percentage points, compared to two percentage points for lone parents from a higher base. Rates of take-up were even lower for dual-earner couples (at 37 per cent), though had risen from 31 per cent in 2000.

In Section 2.1, we noted that the WFTC caseload has risen by 120,000 between November 2000 and November 2001. This increase is equal to a growth of 10.7 per cent in the caseload. By comparison, the growth in the rate of take-up shown below is approximately eight per cent. In other words, the growth in the WFTC caseload between 2000 and 2001 has been slightly more rapid than the resulting increase in the rate of take-up. If the size of the WFTC-eligible population had remained constant, the rate of take-up would have risen to close to 69 per cent. So, the increase in take-up to 67 per cent is the result of a strong rise in the number of recipients, but this rise did not increase the rate of take-up to the full extent because of the increase in the size of the eligible population taking place over the same period. The eligible population may have become larger for several reasons, particularly including the £5 increase in the basic tax credit element which took place in June 2001.

Table 5.2 WFTC take-up rates in 2000 and 2001 by family type

	<i>Cell percentages</i>	
	<i>Unweighted base</i>	<i>Caseload take-up rate</i>
All families		
2000	1365	62
2001	1447	67
Lone parents		
2000	617	78
2001	693	80
Couples		
2000	748	49
2001	754	55

Base: Cross-section samples in 2000 and 2001

These overall increases in the rate of WFTC take-up occurred amongst all family types with varying personal circumstances. Rates of take-up increased from 62 per cent among families with three or more children, to 70 per cent among three-child families and to 75 per cent where there were four or more children (Table 5.3). Take-up among lone parents rose from 78 per cent to 80 per cent; among couples, take-up rose to 60 per cent among single-earner couples (53 per cent a year earlier), and to 37 per cent for dual-earner couples (an increase from 31 per cent). The patterns of take-up from 2000 were repeated in 2001 by work status and housing tenure – WFTC take-up remaining lowest among owner-occupiers (55 per cent), and among dual-earner couples.

Table 5.3 Rates of WFTC take-up by personal characteristics

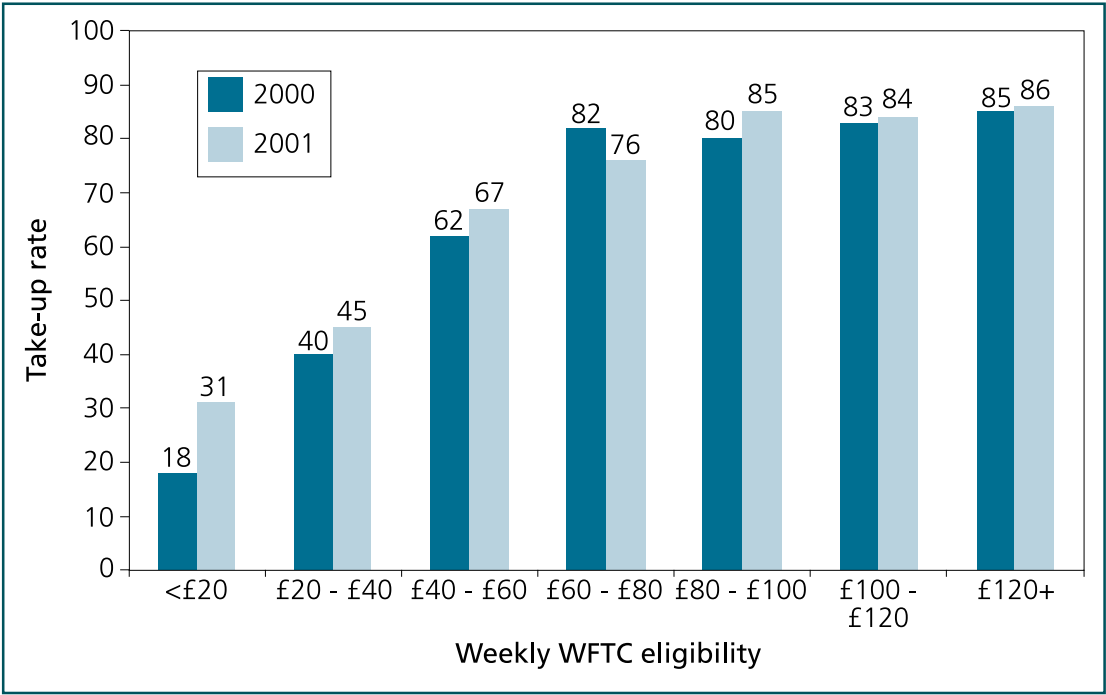
	<i>Cell percentages</i>			
	<i>Caseload take-up rates</i>		<i>Unweighted bases</i>	
	<i>2000</i>	<i>2001</i>	<i>2000</i>	<i>2001</i>
Number of dependent children				
1	67	70	491	565
2	57	61	557	556
3	62	70	224	238
4+	62	75	93	88
Housing tenure				
Owner-occupier	51	55	715	775
Social tenant	75	81	468	461
Private tenant	79	82	101	129
Other (e.g. living with parents)	56	74	78	77
Work status				
Lone parent	78	80	617	693
Couples dual-earner	31	37	152	172
Couple single-earner	53	60	596	582

Base: Cross-section samples in 2000 and 2001

One of the main causes of higher than average take-up is having a higher than average level of eligibility. So, in making comparisons between levels of take-up over time, it is important to try to look at comparable levels of eligibility. This is shown in Figure 5.4. For almost every range of eligibility, take-up was higher in 2001 than in 2000.

Overall levels of WFTC take-up are also affected by the different distributions of entitlement in each year. Figure 5.4 controls for levels of eligibility, so understates the increase in rates of take-up at a time when WFTC became relatively more generous.

Figure 5.4 WFTC take-up by level of entitlement



5.4 Summary

Awareness of WFTC among low- and moderate-income families has risen to 42 per cent, from 33 per cent a year earlier. However, understanding of the levels of earnings that may still qualify for WFTC was quite poor – most people, including WFTC recipients, assume the ‘run-out’ point for themselves is much lower than it really is (see Figures 5.2 and 5.3). Those not in work underestimate the most.

The rate of take-up of WFTC among eligible families increased from 62 per cent in 2000 to 67 per cent in 2001. Expenditure-based take-up increased from 76 per cent to 78 per cent. The caseload grew by more than 10 per cent between these dates (Table 5.2), whilst the size of the eligible population also grew, but more slowly. Hence there was an overall rise in the rate of take-up.

This overall increase in the caseload, and in the rate of take-up, translated into higher rates of take-up among all the groups analysed, with a sizeable increase among families with relatively small levels of entitlement to WFTC. Take-up among couples, especially two-earner couples, remains considerably lower than for lone parents.

6 The administration of WFTC

6.1 Introduction

Working Families' Tax Credit (WFTC) is administered by Inland Revenue. Eligible families may apply for WFTC and, if successful, will generally be paid WFTC at the same rate for six months (the main exceptions are when children leave school, or a parent dies).

Payment may be made in various ways, depending on the employment status of the applicant, and the stage the claim has reached. Couples may choose which of them is the applicant, and this then determines the method of payment.

This chapter reviews some results relating to how the system is delivered.

6.2 Contact between WFTC applicants and employers

One WFTC applicant in every five (21 per cent) said they had spoken to their employer about their current (or most recent) application for WFTC. This figure was identical to that of 2000.

Lone parents were twice as likely as female respondents within couples to have done so – 29 per cent of lone parents had spoken to their employer, compared with 14 per cent among female respondents in couples. However, partners were not asked this question, which may explain some or all of the difference.

The proportion speaking to their employer did not vary to any great degree with the method of WFTC payment eventually used. The rate of contact was 24 per cent of those paid by Order Book, and 28 per cent of those paid via their wages, with lower figures for those paid into their bank or building society account (20 per cent), or (unsurprisingly) who were paid through their partner's wages (seven per cent).

Respondents were asked for their impression of how their employer regarded WFTC, and if employer reactions had altered their likelihood of applying for WFTC in the future. In fact, in 52 per cent of instances employers were perceived to be favourable, negative in five per cent, and neutral for the remaining 43 per cent. One-quarter of respondents (23 per cent) said that contact with their employer had made them more likely to make an application in future, whilst four per cent said it was now less likely. Again, these figures are very similar to those found in 2000.

6.3 Contact with Inland Revenue

Once an application for WFTC is made, most respondents reported no further contact with Inland Revenue. However, a proportion does contact Inland Revenue, such as by telephoning to inquire about the progress of their application. This group is not a random group of applicants, but those perceiving some problem with their claim – such as taking longer than expected to be sorted out.

In the 2001 Survey, 23 per cent of WFTC applicants said they had needed to get in touch with Inland Revenue regarding their claim – something of an increase on the 16 per cent found in 2000. Among this minority having contact with Inland Revenue, the level of satisfaction ('very satisfied' or 'fairly satisfied') was 76 per cent. This might appear lower than in 2000 (when the level of satisfaction was 80 per cent), but this difference is too small to be statistically significant. The reasons for dissatisfaction were similar to last year – mostly concerning the time taken to process the claim, and the quality of information communicated once contact had been made.

6.3.1 Renewing a claim

Most (71 per cent) of those who had ever received WFTC said they had tried to renew a claim at least once. Of this group, 60 per cent said they were 'very satisfied' with the way that Inland Revenue had handled their last renewal, whilst 29 per cent were 'fairly satisfied' with how this had gone. About one in ten had been dissatisfied, evenly divided between stating a 'fairly' or 'very' dissatisfied response. These figures cannot be directly compared to those above, based on those contacting the Inland Revenue because of some perceived problem with their claim.

The main complaint, for those dissatisfied, was that they had not been kept informed during the process, and secondarily that the respondent had needed to supply additional information. However, this is in the context of close to a 90 per cent overall level of satisfaction.

6.4 Time between application and payment

WFTC recipients were asked how long it took for their application to lead to a payment. Most respondents answer with a whole number of weeks, though a few gave answers accurate to a certain number of days. The most frequent replies were 'two weeks' and 'three weeks'. The profile of responses was quite similar in 2000 and 2001 (see Figure 6.1 and Figure 6.2), but with a shift away from up to one week waiting time between 2000 and 2001. There are administrative reasons why this might be. Renewals make up around three-quarters of WFTC applications. Recipients are encouraged to get their claim in early (up to four weeks before their current award expires), so an increased duration could simply reflect people submitting their renewal claim earlier to ensure a seamless transition from one award to the next. Therefore, not too much should be made of this apparent difference. The Inland Revenue has said that it aims to decide 91 per cent of all applications for WFTC within 30 working days, and that it is meeting this target.

Figure 6.1 Time between application and payment in 2000: respondent recollection

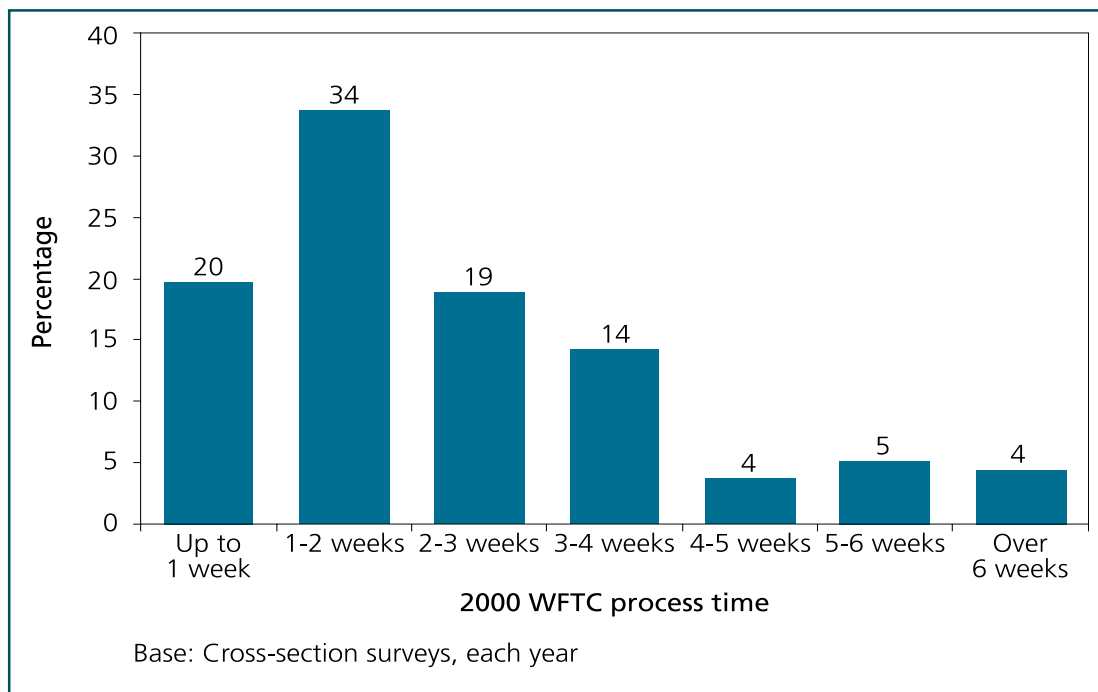
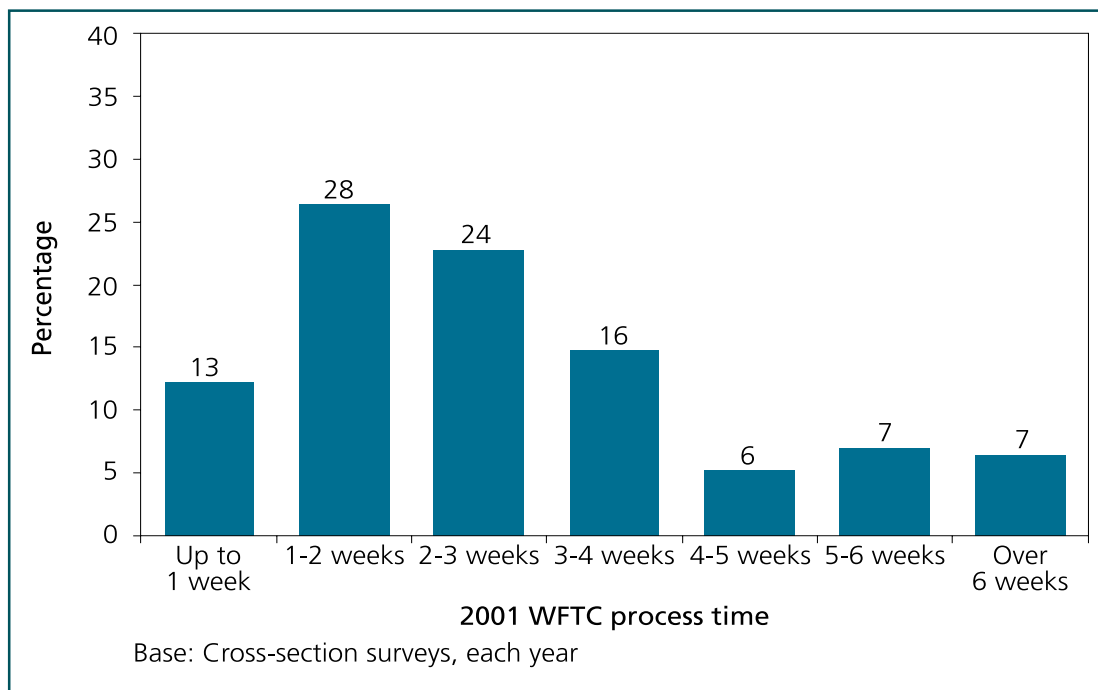


Figure 6.2 Time between application and payment in 2001: respondent recollection



In relation to their last application respondents were asked: after applying for WFTC how long they had to wait before they received it, and whether this had been in line with expectations. Of course, over time, applicants (and especially those renewing a claim) will get to have a better indication of the likely time taken. In 2001, 41 per cent of applicants received WFTC more rapidly than they had

expected (45 per cent in 2000), 15 per cent said more slowly (12 per cent in 2000), and 44 said it was about what they had anticipated (43 per cent in 2000).

Couples were slightly more likely than lone parents to say it had taken longer than expected (by 18 to 13 per cent).

Families making a WFTC application, having moved into work since 2000, cited processing times very similar to the average (a mean of 22 days compared to 23 days overall).

6.5 WFTC payment mechanism

One of the principal innovations introduced with WFTC, was the ability to make payments of tax credits through the wage packet – payment via employer (PVE). PVE is used where the applicant is an employee. For the self-employed, or couples with a non-working applicant, or employees who stop working, there are the options of order books and payment into bank accounts (ACT). Some payments may be made by cheque.

In 2001, over half (57 per cent) the WFTC caseload were paid via their employer (in 2000 the corresponding proportion was 26 per cent). Almost all the remainder were fairly evenly split between being paid into their bank account, or through order books (Table 6.1). Among couples, still one-third were paid WFTC by Order Book.

Table 6.1 WFTC payment methods in 2001

	<i>Column percentages</i>		
	Lone parents	Couples	All WFTC recipients
Order book	8	34	21
Bank account/ACT	17	23	20
Own wages/PVE	72	28	50
Partner's wages/PVE	*	14	7
Cheque	3	1	2
<i>Unweighted base</i>	<i>663</i>	<i>694</i>	<i>1357</i>

Base: Cross-section receiving WFTC in 2001

Of those paid through their wages (or their partner's wages) in 2000, 80 per cent were being paid through wages in 2001 – of the remainder, 13 per cent were paid into accounts, seven per cent using order books. By contrast, 37 per cent of those paid by order book in 2000 were now PVE, compared with 56 per cent of those paid into their accounts.

In 2000, 62 per cent of those paid via employer said they had not expected this when they had applied for WFTC. By 2001, this had dropped to 35 per cent, with more than half (54 per cent) saying this is what they expected. Clearly, there is now greater understanding about the methods of payment used with WFTC.

Again in 2000, some 44 per cent of WFTC recipients paid through their wages said this had caused them particular concerns. In 2001 this had dropped to 24 per cent. The magnitude of this drop was similar among both couples and lone parents, the latter group being the more likely to be paid this way.

6.6 Interaction with social security benefits

WFTC, like Family Credit before it, counts as income for the purposes of calculating entitlement to other benefits – in particular for Housing Benefit and Council Tax Benefit. Indeed, most recipients of WFTC will not be eligible for these benefits. However, it is possible that families moving from Income Support into work, then receiving WFTC, may not be fully aware of the effect this has on such benefits. In fact, 27 per cent of WFTC recipients said they were receiving Housing Benefit prior to their most recent period of receiving WFTC, and 33 per cent that they were receiving Council Tax Benefit.

Among this group, 23 per cent of the former Housing Benefit recipients who received less Housing Benefit, said they had not factored this into their calculations (23% of the 27%, or around six per cent overall). In 2000 the equivalent proportion expecting to receive the same Housing Benefit was 26 per cent.

For Council Tax Benefit, in 2001, 27 per cent of the former recipients thought it would continue to be paid at the same rate (27% of the 33%, or around nine per cent overall). In 2000 the equivalent proportion expecting to receive the same Council Tax Benefit was 34 per cent, a significant reduction.

6.7 Perceptions of the value of WFTC

WFTC provides in-work families with an average of £80 a week, and more. For families generally taking home well below £300 a week, and often half that, it represents a sizeable addition to disposable income. If they were not receiving WFTC, over half its recipients (53 per cent) said they 'couldn't manage at all'. Among lone parents, two-thirds (64 per cent) said they couldn't manage without WFTC. A further one-quarter (24 per cent) of families receiving WFTC said they could only manage without WFTC if they 'cut down a lot'.

A high proportion (62 per cent) of WFTC recipients from 2001 had also received WFTC in 2000. With such a high degree of continuity, it might be thought, that recipients would have a good idea of the likely level of each new award. However, 38 per cent said that their award was higher than they had expected, with 11 per cent saying it was lower than expected – comparable figures in 2000 were 42 per cent receiving more than expected, and 12 per cent less, really quite small differences. The increase in the basic credit of £5 in June 2001 may have contributed to higher than expected awards, among those applying after this point.

6.8 Summary

In 2001, as in 2000, about one WFTC recipient in every five had spoken to their employer about their most recent application. Employers were either positive or neutral in dealing with this group.

A similar number – 23 per cent of applicants – had contacted Inland Revenue about the progress of their application, which was an increase on the 16 per cent of 2000. Levels of 'customer satisfaction' with this contact had not changed; as this is a group who perceive some problem with their application, such as it appearing to be taking a while to resolve, satisfaction levels are likely to be lower than among the WFTC population as a whole. This is reinforced by the fact that nearly 90 per cent of those who had renewed a WFTC claim said that they were satisfied with how this had been handled. Only a minority of applicants (15 per cent) said that the time between application and WFTC payment took longer than they were expecting.

About half the WFTC recipients, and 72 per cent of the lone parents, were being paid WFTC directly into their wages. There is now greater understanding of this method, and fewer people said it caused them any concerns (dropping to 24 per cent in 2001 compared to 44 per cent a year earlier).

7 Concluding remarks

This large and complex new source of data has permitted an extensive and detailed examination of the workings of Working Families' Tax Credit (WFTC) in 2001. In this report, the picture of WFTC in 2001 has been complemented by dynamic analyses of families moving into eligibility of WFTC, and out of eligibility, during 2000-2001.

7.1 The role of WFTC

Working Families' Tax Credit has established itself as an important part of many working families' income packages. Over one family in every five (21 per cent) in paid work of 16 or more hours received WFTC in 2001. They received an average of £80 per week. WFTC is even more prevalent among those families moving into work (of 16 or more hours) in the course of the previous year, some two in three of those who received it. Over half the lone parents moving back into work had jobs of 16-23 hours a week, forms of employment that would be difficult to sustain without considerable in-work support.

Families just returning to work tended to earn above the National Minimum Wage, which has by no means removed the necessity for many families of in-work support. Sometimes, raising the minimum wage is presented as an alternative to providing support through WFTC. However, the wage levels earned by WFTC recipients, even those just starting out in work, are considerably above the level of the minimum wage. It would need to be very much higher before it began to affect many WFTC recipients – and set at extremely high levels before it could ever eliminate such support. Conversely, having the minimum in place does confront one of the other criticisms of in-work support, that it provides employers with good reason to set low wages, and allow in-work support to make up any shortfall in income. This has always been a controversial issue.

7.2 WFTC and incentives

WFTC may give rise to a range of different incentive effects. First, in the labour market, it provides an incentive for families to move into work. On this, WFTC does seem to be playing an important role in. One of the policy priorities is to 'make work pay'. There are various different ways of showing how much work does, in fact, pay for families. Taking families moving from Income Support to WFTC, we can say that they enjoy incomes around £64⁹ higher, after in-work costs, than if they had remained

⁹ The median figure was £50.

out of work and instead receiving Income Support. This also takes into account any rent they might have had to start paying. This is a substantial gain. If families can earn more, then although their WFTC will reduce, their overall income gain from working will actually increase.

An important feature of WFTC is that additional earnings lead to a less rapid withdrawal of in-work support than did Family Credit. This is designed to address one of the concerns made about a different incentive feature of in-work support – that it reduces the incentive for families to work longer hours, or increase their earnings capacity in other ways (such as through additional education) and for single-earner families to become dual-earner families. In other words, WFTC might have effects on the kinds of hours that people chose to work or which people work within couples.

We have already seen just how common it is for lone parents to work relatively short hours (16-23), which, without WFTC, would be less frequent. Among couples, the evidence on the kinds of working hours changes made over time by WFTC recipients was much more mixed – there are lots of possible changes, and respondents were widely spread across those options with no systematic trends. There was no evidence that second earners were dropping out of the labour market – this did happen, but there was an equal tendency for single-earners to become dual-earner couples.

7.3 Take-up and administration

It was inevitable that a large increase in the level of entitlement to in-work support would increase the caseload, while reducing the rate of take-up. Take-up of in-work support fell from 72 per cent in 1999, to 62 per cent in 2000. By 2001, it had increased to 67 per cent. Expenditure-based take-up measures were not reduced to the same extent. There was a small increase in expenditure-based take-up between 2000 and 2001, which indicates success in raising take-up among those families with relatively small entitlements to WFTC.

This evidence continues to show that take-up is far from complete, but neither is it random or particularly low. Eligible non-recipients (ENRs) of WFTC have relatively high levels of awareness of in-work support, often extending to making an application themselves. An unsuccessful application may be evidence that they've been deterred from further applications, or that their circumstances have recently worsened, or indeed that they're not quite so eligible as the data suggests. Over time, ENRs are more likely than recipients to move out of range of in-work support.

The changes introduced to payment methods by WFTC generated less concern in 2001 than they did in 2000 – perhaps as mechanisms become more familiar, and the range of options more widely appreciated. Levels of satisfaction with renewals are high, but more people appeared to be contacting Inland Revenue regarding the processing of their applications. For this group, levels of satisfaction with this contact are not improving.

7.4 Summing up

Many of the results presented in this report may be interpreted as good incremental progress regarding WFTC, rather than any step-change in fortunes.

WFTC has become an important part of the income package for workers. It supports large proportions of low-income families. Strong concerns about the effects of in-work support on working hours and working patterns did not appear to be supported.

The rate of take-up of WFTC has risen to a significant degree, and families with lower take-up rates have seen important rises. Levels of awareness have also risen, but most families, whether working or not, still underestimate how much they could earn and still receive WFTC. This was most acute among non-working families.

More respondents seemed to be contacting the Inland Revenue. Levels of satisfaction with this contact are not improving, so there is scope for improvement. However, levels of satisfaction with dealing with renewals were very high.

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Appendix

Details of each annual survey

1999 wave 1 survey

The research was intended to provide baseline information on lower- and moderate-income families. It took some features from a survey conducted in 1991 (Marsh and McKay 1993). This was a study designed to evaluate the effectiveness of Family Credit, which had been introduced in 1988. The study was based around the population considered to be 'in range' of Family Credit. That is, not just those receiving Family Credit, but those who might potentially receive it. The latter populations included eligible non-recipients of Family Credit, those on moderate incomes for whom a small change in circumstances might draw them into Family Credit eligibility, and non-working families, many of whom might qualify on moving into paid work. The 1991 study spawned a longitudinal study of lone parents (e.g. Finlayson, *et al.* 2000), but had not been designed with that aim in mind.

For this study, a major aim of which was to study work incentives and the continuing role of in-work support, a similar design was adopted. It was thought important to capture those who might be affected by in-work support, and not just current recipients of such support. It was also recognised that the current study was more likely to become a 'panel study', with respondents followed-up for perhaps many years. As a result, better arrangements for remaining in touch with respondents were put in place (e.g. collecting 'stable' address details, sending out regular address check reminders).

The Policy Studies Institute (PSI), in partnership with the National Centre for Social Research (formerly SCPR), conducted the first wave of 'SOLIF' (Survey of Low Income Families) in 1999. This was renamed to FACS in 2001, to reflect the inclusion of a sample of all families with children, not just those on low or moderate incomes. In 1999 the sample comprised lone parents, and couples with dependent children who were either:

- workless; or
- receiving Family Credit; or
- on low or moderate earnings, selected from a sample of families receiving Child Benefit.

Plus, there were two small additional samples of a cross-section of Family Credit recipients, and an inflow sample of Family Credit recipients (see above). To respondents, the survey was described as a 'Study of Families with Children', a name it has retained in contact with them.

The introduction of Working Families' Tax Credit, replacing Family Credit from October 1999, led to an expansion in the scope of the 1999 survey compared to 1991. Changes to Family Credit rules had already brought better-off families into scope between 1991 and 1999, and WFTC extended the range of qualifying incomes still higher. The sample selection criterion, for couples, was extended rather further up the income distribution, from 25 per cent above the Family Credit run-out point (used in 1991) to 35 per cent in 1999. The Inland Revenue, who became co-sponsors of the research programme, had a specific interest in evaluating WFTC and supported this change.

The results from this survey have now been published (Marsh, McKay, Smith and Stephenson 2001). A technical report is also available (Woodland and Collins 2001) containing full details of the fieldwork element of the project.

Year-2000 wave 2 survey

The wave 2 survey had two main elements. First, a **panel** element. All families from the 1999 survey were re-interviewed (respondents and any partners) regardless of any changes in circumstances (i.e. there was no screening exercise, movers were followed even if outside the originally sampled areas). The second element was to achieve a new representative **cross-section** of lone parents and low/moderate-income couple families. This was achieved through re-screening the families found to be ineligible at wave 1, and screening families newly claiming Child Benefit in the selected areas (specifically, families having a first child in those areas, and families who were in-movers to those areas).

Fieldwork took place during June to early October 2000. The questionnaire was largely based on that used in 1999. The main area of change was a much expanded section on WFTC. The section on childcare was changed also quite considerably, to permit the collection of data about each child and each type of childcare arrangement (including hours and costs for each child).

The high level of interest in WFTC meant that the screening stage was modified in two ways. First, the level of income cut-off was raised by a sizeable margin. For couples in work in the 1999 sample (and not on Family Credit) the average margin on top of WFTC to achieve the same order of selection as 'Family Credit+35%' turned out to be **WFTC+3.6%**. For example, in 1999 the Family Credit run-out point for a family with two children aged under 11 was. £210 per week. Adding 35 per cent gave a figure of £284. The equivalent run-out point for WFTC is £276 (for October 1999-March 2000). Hence, applying the same criterion in 1999 would mean taking WFTC plus 2.9 per cent per cent (i.e. £276+2.9% gives £284). The equivalent figure on top of WFTC, to replicate the 1999 process, is lower for larger families, and for families with children younger than 11.

Since this margin was considered low, given the potential for people to misreport earnings, and for policy to further raise levels of WFTC in the years after 2000, it was raised to WFTC plus 10 per cent, which meant a much larger sample size. Second, those families with spending on childcare were routed through an in-home screener, to ensure that the potential value of the childcare tax credit was included in the income screener: hence, the effective income cut-off was (WFTC+childcare tax credit, plus 10 per cent), calculated at June 2000 rates of tax credit.

The response rate to interviews among the panel was 88 per cent. Among new ('booster') cases the response rate was 72 per cent, and among those re-screened (to see if they were now below the

income threshold for inclusion, or had become lone parents) the rate of response was 70 per cent. A technical report on the fieldwork is available (Woodland and Collins, 2002) from the *National Centre*.

Results from the first and second waves were published in three reports: McKay (2002), Vegeris and McKay (2002), and Marsh and Rowlingson (2002).

Year-2001 wave 3 survey

In 2001, the sample became both simpler and more powerful. It was extended to all families with children regardless of their income level.

The sample in 2001 consisted of all families responding at waves 1 and/or 2, plus anyone who had been previously screened out, plus boosters (new families, in-movers). In this way, a representative sample of all families was created. Some 85 per cent of those interviewed at wave 2 were successfully traced and also interviewed at wave 3. A number of families who had taken part only in 1999 were also interviewed – Section 1.2.4. There are plans to conduct further interviews in 2002, 2003 and 2004.

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