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**Costs of being in work: A review of  
literature and research**

**A study carried out on behalf of the  
Department of Social Security**

**by**

**Roy Sainsbury  
Social Policy Research Unit (SPRU)  
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## EXECUTIVE SUMMARY

### Introduction

This report reviews the literature and research data on what people pay as the costs of working. The aim of the review has been to contribute to policy debates about the obstacles that people face in leaving benefits and joining, and staying in, the labour market. In commissioning the work, the Department of Social Security stipulated that information was needed on the direct, 'hard' financial costs associated with going to work, i.e. actual cash outgoings. Other costs, such as the loss of means-tested social security benefits and the obligation to repay debts, were not included in the review's terms of reference. The rationale for this focused approach to costs was that to date there had been no systematic and comprehensive analysis of what people actually pay as the cost of working.

The Department also wanted to address a number of more specific research questions regarding the possible disincentives to work for lower-paid workers and for lone parents generated by the costs of working, and the differences between perceptions of potential in-work costs and the reality. A final objective of the review was to assess the potential offered by existing data sources for providing ongoing information about the costs of working.

Chapters Two to Six present a review of recent literature and research on the costs of being in work up to March 1998. Most of the material reviewed has been published since 1990. The review of published material has been augmented by new analyses of the Family Resources Survey (FRS) data set for 1996-97 carried out specifically for this project.

### Summary of findings

#### *Start-up, travel and other costs (Chapter Two)*

The amount that people pay in travel to work costs depends on a number of factors, some of which are outside their control, but some of which are a matter of choice or preference. *Ability to pay* will play a significant part in explaining differences between, for example, lone parent and two-parent households. New analysis of the 1996-97 FRS data set shows that lone parents pay less than two parent households, (for example, four in ten lone parents pay nothing to travel to work compared with a quarter of two parent households). The FRS also

shows that nearly a third (30 per cent) of all working adults pay nothing in travel to work costs, and of those who pay for travel 43 per cent pay £10 a week or less.

Data on some of the other costs associated with working are thin. Expenditure on some items is available (for example, in the FES, which shows that in 1997, four in ten people paid for food at work at a weekly cost of £3.50) but other data cannot be linked definitively to work.

#### *The costs of child care (Chapters Three and Four)*

The review of the published literature and the new analysis of the 1996-97 FRS data clearly show that there is great diversity in what people pay for child care for which there is no simple explanation. For example, 74 per cent of lone parents working full-time paid nothing for child care, as did 67 per cent of two-parent families. In contrast, nine per cent of lone parents and 16 per cent of two-parent families paid over £50 a week. Where someone was working part-time in the household (and therefore in principle available to provide some child care) 88 per cent of all families paid nothing for their child care, while four per cent paid over £50.

The published FRS report for 1995-96 showed the following:

- the highest weekly amounts of child care (over £50) were paid by self-employed people and households where all adults were in full-time work;
- child care costs across all economic groups increased during the school holidays compared with term time;
- for people who pay for child care, the majority paid less than ten per cent of their household income during both term time and school holidays;
- the self-employed and households where all adults were working full-time paid comparatively higher proportions of their incomes.

Other studies consistently show that some forms of care, such as nannies are significantly more expensive than more communal forms of care such as nurseries and childminders.

Comparisons between lone parent and two-parent households in the FRS show that where the lone parent or both parents work full time, the need for child care is similar. However, lone parents on the whole, pay less for the care they purchase. Part of the explanation for this result is likely to be the lower earning capacity of lone parents compared with households

where both parents work, which allows the latter group to purchase more, or more expensive, care.

#### *The combined and the net costs of working (Chapter Five)*

There is no literature on combined costs, taking into account the aggregate effect of travel costs, child care costs and the other, usually smaller, costs for people in employment.

New analyses of the FRS data set for 1996-97 show that 40 per cent of lone parents working part-time pay neither child care nor travel costs, compared with 20 per cent of lone parents working full-time. In contrast, 22 per cent of full time working lone parents and seven per cent of part-timers pay over £50 a week in combined costs. Fewer two-parent households, where both adults work full-time pay nothing in combined costs (nine per cent) compared with nearly half (49 per cent) who pay over £50 a week.

Some workers enjoy fringe benefits which may contribute directly to offsetting the costs of working, or provide some other form of subsidy (such as cheap goods) which increases the value of working. Only limited data on fringe benefits are available from one-off surveys.

#### *Perceptions of the costs of working compared with actual experience (Chapter Six)*

As important as the actual costs associated with going to work are people's perceptions of those costs. If a person contemplating working thinks that travel or child care costs are likely to be beyond their resources, they may not even begin the process of looking for work.

Studies have shown that Income Support (IS) claimants are concerned about child care costs, travel, clothes and equipment, and paying for things they received free as benefit recipients (such as Council Tax Benefit and free prescriptions). Findings suggest that for some, though not all, claimants, their worries were borne out when they started work. Others however found that concerns about, for example, child care arrangements were less serious than they supposed.

The policy implications of these findings are (a) that better and more authoritative advice is needed for jobseekers when they are contemplating work, and (b) that better publicity concerning the help that people can get with in-work costs from the benefit and employment systems could allay the concerns of some claimants.

### **In-work costs, low incomes and household types**

This review has attempted to address the specific questions regarding the possible disincentives to work for lower-paid workers and for lone parents, generated by the costs of working, and the differences between perceptions of potential in-work costs and the reality.

*Do lower-paid workers find that start-up and continuing costs of being in work erode the incentive to work?*

There is ample research evidence that people undertake sometimes sophisticated calculations in assessing whether or not it is worth their while financially to attempt seeking work, or to take a particular job. However, the literature on work incentives strongly suggests that it is unrealistic to attempt to establish the level at which the costs of work in isolation become significant for low-paid workers in decisions about working.

The conclusions of much research is that there is an incentive problem for many people whose aspirations, for whatever reason, are limited to low-paid employment. The poverty and unemployment traps created by the structure of the benefit system are still a reality for many unemployed people.

However, we have found no treatment in the literature of *total* in-work costs (either start-up or continuing) which would allow us to answer the research question as set out above. Also, there is no systematic evidence about the reasons why people leave employment which would allow us to assess the contribution that in-work costs make to such decisions.

*Are there differences in in-work costs for different family types (in particular, lone parents as opposed to families with children)?*

Chapters Two to Four have demonstrated, using analyses of the 1996-97 FRS data set, the differences in the amounts paid for child care and travel by lone parent and two parent households. Understanding the differences, however, requires information about the constitution of the household (number of parents and children, and their ages), people's needs (for example, for someone to care for their children), their opportunities (for example, the availability of affordable child care), and their preferences (say, to work full or part-time, or not at all).

The analysis suggests that there are two distinct types of households: those that can arrange their circumstances such that they incur no child care or travel costs associated with work, and those that have to pay for care or travel. More lone parents, through choice or necessity, than two parent households fall into the former category. However, when we examine the *payers* separately more lone parents are using bigger proportions of their income to pay in-work costs.

The analysis of the FRS that has been possible so far does suggest, therefore, that the burden of in-work costs (expressed as a percentage of income) falls more heavily on lone parents compared with other family types.

*Is there a difference between the perception of potential in-work costs and the reality?*

There is some evidence of a possible disparity between current claimants' worries about working and the experiences of people when they do move off benefit. However, the survey data do not allow us to distinguish worries based on some degree of knowledge about the costs of working and those based on an unfounded set of feelings or even biases and prejudices.

As part of the research project, we have also considered whether a distribution curve of in-work costs could be established, and at what point this levels off. The current published data do not provide sufficient information for the calculation of an overall measure of in-work costs which would allow the construction of a single distribution curve of in-work costs. Furthermore, the differences in costs between different family types and between different income groups suggest that a single distribution curve would mask the true impact of these in-work costs for some groups.

**Use of data sources in the future**

Our review of data sources suggests that no one source will provide comprehensive information on the monetary costs of working.

If regular information on the costs of working is considered worth pursuing, there are three approaches that we can consider:

- to enhance one of the existing surveys so that it could provide data on all the costs of working - the FRS and the FES appear to be the most useful options;

- to rely on a number of sources to provide information on the separate costs of working;
- to initiate a new survey of in-work costs.

The FES is at present the only source which could provide information on other in-work costs as well as child care and transport. For the FES to be used as a reliable and comprehensive data source on the costs of working, some modification of the existing questions would be needed to link expenditures with working.

Like other large surveys, the FES in its current form would not allow the identification of people who had recently (however that might be defined) started work. Even if this were possible it is not known whether the survey, which typically covers 6,000 to 7,000 households would generate a sufficiently large sub-sample of new workers.

The FRS is the largest survey (covering around 26,000 households) that is relevant for studying in-work costs. It includes questions on the costs of child care and on travel costs. Our exploratory analyses of these data have shown that the data have the potential for exploring in some detail these aspects of the costs of working.

There is clearly potential for analysing in considerable detail parents' arrangements and payments for child care. The size of the sample makes it possible to explore child care costs for groups of the population, such as the self-employed, that other, smaller surveys cannot.

The comprehensive list of data items covering travel to work in the FRS allows a comprehensive analysis of individual's and groups' travel arrangements and associated costs.

The FRS also has the potential for exploring the combined amounts of child care and travel costs. Such analyses should be useful to policy makers, but nevertheless still do not capture the full range of in-work costs that people incur. Child care and travel are probably the most important costs for the majority of people in work and contemplating starting work. However, the studies of perceptions of costs suggest that items such as clothing and equipment are also important for some people. The opportunity exists for adding these and other items of work-related expenditure to the FRS interview schedule. This would generate as comprehensive a view as possible of direct, cash expenditure associated with people's jobs.

### *National Travel Survey (NTS)*

The National Travel Survey is not suitable as a vehicle for collecting comprehensive information on the costs of working. However, it could be used to provide travel to work estimates for those people who actually incur direct costs since information on each journey is recorded separately.

### *Labour Force Survey (LFS)*

The only relevant questions at present in the LFS concern travel to work and trade union membership, but details of costs are not collected. No data is collected on the use and costs of child care.

### *A new survey of in-work costs*

Comprehensive information about in-work costs could be generated using a new, one-off survey purely for the purposes of measuring the costs of being in work. Such an enterprise would be technically feasible, and a sample of established and new workers could possibly be drawn from the FRS or LFS's. The cost of a new survey, however, may not represent value for money given the existence of the alternative data sources already in existence.

### **Final comments**

It has not been possible to address all the Department's concerns in this review of published sources and work in progress, about the costs of being in work. To date, the subject has not been approached in a systematic and comprehensive manner. The picture that emerges from the uneven coverage of the separate elements of in-work costs (such as child care and travel) is generally one of great complexity, which defies easy simplification.

The key points to emerge from this review can be summarised as follows:

- I. The direct monetary costs of working (that is, outgoings) are an important, but not the only, influence of people's decisions about whether to take up or stay in work.
- II. There is a wealth of information on the costs of child care, in the form of *ad hoc* studies, and large-scale surveys that collect continuous data (including the FES and FRS).
- III. Information on travel costs is collected in a variety of forms in a number of surveys (including the FES, FRS, LFS and the NTS). Little of these data appear in a form which contributes to an understanding of the costs of travelling to work.
- IV. Data on other forms of in-work costs are very limited in comparison.
- V. In constructing an overall indicator of the costs of working, consideration should be given to whether gross or net costs are most appropriate, and account should be taken of the difference (where it can be established) between essentially voluntary costs and those which are necessary. There is a case for producing analyses using both gross and net earnings since people's perceptions of the costs affecting them may be based on either of these measures.
- VI. Data on the costs of working are not useful alone for investigating people's perceptions or their processes of decision making.
- VII. The review of the possibilities offered by existing data sources is encouraging. We recommend that further exploratory analysis is undertaken using the FES and particularly the FRS, which appears to offer the greatest potential for the analysis of the costs of working.

## CHAPTER ONE INTRODUCTION

### **The policy context**

In the mid-1990s, the Government introduced a series of work incentives measures aimed at a co-ordinated approach to remove or reduce barriers to employment. The measures, presented as a package in the 1994 Budget, were designed to address the following main issues (DSS, 1995):

- to reduce the poverty trap, by helping to make people better off in work;
- to remove uncertainty at the point of moving into work by guaranteeing housing costs;
- speeding up the payment of in-work benefits and removing the risk of gaps in the income flow;
- to encourage employers to provide more jobs for people coming from unemployment.

Work-related costs are frequently raised by pressure groups and lobby organisations as an obstacle to work. Research commissioned by the Department highlighted the fear of disruption to income flows as a barrier to leaving benefit, especially for people contemplating lower paid work. Measures aimed at addressing rent costs and 'lumpy' expenses on starting work included the speeding up of Family Credit claim processing; the extension of Housing Benefit into the first few weeks at work; and lump sums payable to certain people on moving into work.

Child care disregards for some claimants receiving Family Credit (FC), Disability Working Allowance (DWA) or Housing Benefit (HB) were introduced. Regulations allowed up to £40 of the costs of care by a registered childminder to be offset against the calculation of benefit, the effect of which, after taking into account the tapers, was to provide a maximum of £28 extra income per week for eligible parents. The amount that can be disregarded was increased to £70 in 1996 (worth a maximum £49 after the effect of the tapers). While the recognition within the benefit system of the importance of child care costs was generally welcomed it has also been criticised for being too narrow in scope and insufficient in provision (for example, Child Poverty Action Group, 1994).

The Social Security Advisory Committee also considered the role of the benefit system in people's transition from unemployment to employment. In one report (SSAC, 1994), it recognised the potential barriers that could be faced by some people if they had to buy tools or equipment, or needed to make payments for medical examinations or HGV driving

licences before they could start work. Reiterating some of the conclusions from their earlier report on the Social Fund (SSAC, 1992), the Committee recommended that:

*... serious consideration is given to the provision of grants which would enable people to take up a job offer which requires a financial outlay. ...Whether such a grant fits better into the Social Fund or into the new Jobseeker's Allowance and Charter is a matter for further debate. But the absence of such grants is a formidable, and sometimes insuperable, barrier to employment for those people who have neither the cash nor the ability to borrow sufficient money to effectively buy themselves into a job.*

(SSAC, 1994, p.26)

The SSAC also noted that the current concern with the costs of working, as a possible barrier to people wishing to take up employment, comes less than ten years after the demise of the supplementary benefit system (in 1988). That included not only an earnings disregard (of £4 a week), but also an allowance for 'reasonable expenses' such as fares, trade union dues, and child care costs. They argued, therefore, for:

*... some recognition of other work expenses which the former supplementary benefit system allowed.*

*(p.8)*

The Labour government's overall plans for increasing employment are contained in the *Welfare to Work* strategy, which, among other things, incorporates policy initiatives such as the 'New Deal' initially for young people under 25, lone parents, and disabled people. The New Deal was extended to unemployed people over 25 years of age in June 1998. The benefit system that currently offers in-work benefits, such as FC and DWA, to low income earners will be replaced by tax credits designed to uncouple people in work from social security. A national childcare strategy has been announced which is intended to provide the types of child care that will enable parents to take up work.

This report presents the findings of a project originally completed in 1996. On completion new data became available and a revision was undertaken. This report, therefore, now covers data available to July 1998.

### **Background to the research**

The objective of the original research was to review existing knowledge about the financial costs that working people incur when they start work and while they continue in work. A number of existing and potentially useful sources existed – the FES, the FRS, the then

Employment Department's Family and Working Lives Survey and the Department of Social Security's Barriers to Moving Off Income Support project. However, information was dispersed and a coherent summary of the actual costs of moving into and continuing in work did not widely exist. In addition, an assessment was required of possible future options for obtaining the information on the costs of working, including the opportunities offered by existing continuous surveys such as the FRS and the LFS.

### **Aims and objectives**

Information was intended to inform ongoing and prospective policy developments in relation to social security. The broad questions that required investigation were:

- do lower-paid workers find that start-up and continuing costs of being in work erode the free money between net income in work (especially net pay) and out-of-work benefits, to the point where there is insufficient gap to create an incentive?
- are there differences in in-work costs for different family types (in particular, lone parents as opposed to families with children)?
- is there a difference between the perception of potential in-work costs and the reality? Does that perception affect movement into, or continuation in, work?

The Department's main requirement was for information on the direct, 'hard' financial costs that are associated with going to work, i.e. actual cash outgoings. It must be recognised that this is an important, though limited, definition of costs which ignores, for example, the loss of means-tested social security benefits or other benefits in kind that may result from starting work.

### **Definitional issues**

In evaluating the published material relating to the costs of being in work, it is important to recognise a number of relevant definitional issues. The first of these is the distinction between the costs associated with starting work, and those that continue throughout a job. The costs of working are relevant in two ways. First, they have a bearing on movements into the workforce from unemployment, and secondly they are relevant for movements in the opposite direction, from employment to unemployment. While there is an element of overlap between the two, it would seem useful to distinguish the former, which we can call *start-up costs*, from the latter, or *continuing costs*.

Start-up costs are incurred as an immediate consequence of beginning a job, although some may arise again as replacement costs. They include:

- clothing (including 'normal' day-to day clothing, as well as specialist protective clothing);
- tools and equipment;
- costs associated with the delay between benefits ceasing and the first wage packet;
- costs associated with the loss of facilities such as direct payments (which necessitate the person resuming full responsibility for paying bills and/or clearing debts);
- medical examinations;
- special licences, such as the HGV licence.

Other costs of working will be incurred at the start of the job but will usually continue on a regular (often daily or weekly) basis for the duration of the job. They include:

- travel to work costs;
- costs of child care;
- membership of trades unions or other trade or professional organisation;
- costs of food and refreshments;
- costs of social events.

The second issue is to recognise that costs can be offset in a number of ways, such as free transport, luncheon vouchers or a works crèche. Whether one conceptualises these as *subsidies* or *rebates*, or as a form of *income* is arguable. Their relevance is that they will either be part of the calculations that people make when deciding to take a job or when considering whether to continue working, or they will not. Either way, we need to be aware of their existence and their value, and the way they are perceived by people. Thirdly, it is important to distinguish between the unavoidable costs associated with work, such as travel or child care, and those that are more voluntary in nature, such as spending on food or membership of trades unions. The distinction is not clear cut, of course. On the one hand, people have choices about methods of transport or what kind of child care to purchase. On the other hand, what may seem conceptually to be voluntary expenditures, such as participation in betting syndicates or social events, may be the subject of powerful informal pressures which may be difficult to ignore.

The relevance of offsets and of voluntary spending is the contribution they make to people's decisions about whether it is worthwhile starting or continuing in work, i.e. to their assessments of their *reservation wage*. There is considerable social policy and economic literature on the theory and practice of the reservation wage, defined as the wage rate at which someone will exchange an hour of leisure time for work. The relevance of the theoretical construct of the reservation wage is a matter of some debate. McLaughlin *et al.* (1989), for

example, suggest that the notion of a reservation *income* is more relevant to people's lives than a reservation wage, i.e. the net amount of money from all sources that is necessary for a family's needs. They conducted a small-scale study of unemployed two-parent families in West Yorkshire and Northern Ireland in 1986/7 to investigate the work-seeking behaviour of unemployed people by exploring their perceptions, attitudes, and beliefs. They found that the costs associated with work and which formed part of the family's 'needs' calculation were predominantly travel expenses. The reservation wage was calculated by deducting assumed work costs from the proposed net wage.

Other studies suggest that a wider range of work costs is included in people's thinking about whether or not to take work. Lone parents in particular are mainly concerned with arranging adequate and affordable child care (see, for example, Kempson *et al.*, 1994; Ford, 1996; McKay, *et al.*, 1997).

Increasing the number of people in work is central to the Government's strategy of reforming the welfare state. However, people starting work are likely to incur a number of costs, some of which may be set-up costs, such as the purchase of special clothing or equipment, and others recurrent costs, such as travelling to work or providing child care. The importance of these costs is that they may act as, or be perceived as, barriers to looking for or taking work, or may contribute to people making the decision to leave employment.

The costs of work are therefore of key policy importance. They need to be understood in order that appropriate policy responses to tackle disincentives and barriers to work can be devised. Yet, there has been no systematic and comprehensive analysis of what people actually pay as the cost of working. This report, commissioned by the Department of Social Security, is a review of the information currently available from recent published data sources, and potentially available from large-scale continuous surveys sponsored by government departments. The principal aim of the review is to inform policies to reduce the obstacles that people face in leaving benefits and joining the labour market and policies to increase the chances that people stay in work once they have found a job. The Department's main requirement in commissioning the review was for information on the direct, 'hard' financial costs associated with going to work, i.e. actual cash outgoings. It must be recognised that this is an important though limited definition of costs which ignores, for example, the loss of means-tested social security benefits, other benefits in kind, or the obligation to repay debts that may result from starting work.

## **Scope of literature and data review**

This review has drawn on three main sources: published academic and research literature, information available from large government-sponsored surveys, and research in progress commissioned by the DSS. These sources are outlined below.

### *Academic and research literature*

The main types of literature which have been found to contain information about the costs of working are:

- Literature on living standards and family expenditure;
- Literature on the operation of the labour market;
- Literature on low income families.

Typically the sorts of questions relevant for this study which have occupied analysts have been:

- What constitutes people's reservation wage?
- What are the barriers, real and perceived, that prevent people from taking work?
- How much disposable income do people have when working compared with being on benefits?

Much of the relevant academic literature is either associated with a single issue, such as the costs of child care, or concerned with a wider problem, such as work incentives. There has not been, to our knowledge, work which has attempted to quantify comprehensively the costs of working.

### *Large continuous surveys*

For ease of reference, the size and scope of the major sources of continuous survey data consulted in the course of this research are described below. Other *ad hoc* surveys are described later at appropriate points in the report.

*Family Expenditure Survey (FES):* The FES collects comprehensive information on household expenditure and household income, defining the household as a group of people living at the same address and sharing common household expenses such as food and bills. Each person aged over 16 years is interviewed and asked to complete a two-week diary of all their spending. Personal information and details of income are also collected. The FES sample is a stratified random sample drawn from the small users file of the Post Office's Postcode Address File (PAF).

In the 1996-97 wave of the survey, 6,415 households in Great Britain participated, a response rate of over 62 per cent. A separate survey is carried out in Northern Ireland.

*Family Resources Survey (FRS)*: The FRS was initiated by the DSS in 1992 to provide appropriate data for the evaluation of policy initiatives, including modelling and costing changes to existing benefits. Four waves of the survey have been completed, each covering around 26,000 randomly selected households. The survey mainly collects income data, but also includes a variety of subjects which have a bearing on household income, such as housing costs, child care and travel to work costs. Details of household characteristics such as the number and ages of children, and disabilities are also collected.

Three reports have been published to date (DSS, 1995, 1996, 1997). For the purposes of this review several new analyses have been carried out. None of these appear in the published literature.

*General Household Survey (GHS)*: The GHS was set up in 1971 to provide background information for central government decision making. It includes a set of core questions about population and fertility, housing, health, employment, and education. In addition, other subjects are covered periodically and new topics introduced. For example, in the 1991 GHS, a set of questions about child care arrangements was included.

In 1993-94, a sample of 18,500 people (from 9,850 households) were interviewed, drawn from the general population resident in private (i.e. non-institutional) households in Great Britain.

*National Travel Survey (NTS)*: The continuous NTS began in July 1988. Data are usually presented as an average for three year periods and main reports were published for 1989-91, 1992/94 and 1995/97. Interim reports were published for 1991/93, 1993/95 and 1994/96. The latest report was based on information from nearly 10,000 households (over 23,000 individuals) collected between January 1995 and December 1997. Apart from the personal details of the household, respondents complete a travel diary covering a seven-day period. For every journey, information is collected on the purpose, method of travel and length of journey. The types of questions asked reflect the main aim of the survey, to provide a better understanding of the use of transport facilities by different sectors of the population.

## **Structure of the report**

The structure of this report has largely been determined by the uneven spread of information on the topics which are of relevance for this study. Chapter Two reviews material on start-up costs, travel to work costs, and the range of miscellaneous spending associated with work. Some new analyses of the FRS 1996-97 data set are also presented. Chapters Three and Four cover the literature and research data on the costs of child care reflecting the research and policy interest shown to the costs of child care in recent years. Chapter Three concentrates on published research data since 1990, and Chapter Four presents a summary of the information available in published FRS reports together with new analyses of the FRS carried out specifically for this review. Chapter Five also draws mainly on original analysis of the FRS to present data on the *combined costs* of working. Chapter Six considers the evidence on the relationship between people's perceptions of in-work costs and their experiences in practice. In the final chapter, we return to the questions that formed the starting point for this enquiry and attempt to summarise the extent of current knowledge, and to assess future options for collecting information on the costs of working.

## **CHAPTER TWO START-UP, TRAVEL AND OTHER COSTS**

In this chapter we examine the literature on the start-up costs of working, travel and other work costs. We have found that start-up costs have not been subject to the kind of large-scale surveys that characterise work on, for example, child care costs. There is discussion, in the literature covering work incentives, of people's reservation wages which often includes acknowledgment of travel and other costs, but these are rarely quantified.

There is also little published literature on the costs of travelling to work, although the FRS has included a limited number of tables in its reports. For this project, DSS was requested to carry out a limited amount of secondary analysis of the FRS. The NTS and FES also offer the potential of generating useful information from secondary analysis.

Hard data on other costs of working (such as subscriptions to trades unions and professional associations, food and refreshments, and social activities) are even more scarce.

### **Start-up costs**

As mentioned in Chapter One, start-up costs are incurred at the beginning of a job rather than on a daily or weekly basis (although in the case of clothing there will be a need to replace worn out items at some time in the future). They include:

- clothing (including 'normal' day-to day clothing, as well as specialist protective clothing);
- tools and equipment;
- costs associated with the delay between benefits ceasing and the first wage packet;
- costs associated with the loss of facilities such as direct payments (which necessitate the person resuming full responsibility for paying bills and/or clearing debts);
- medical examinations;
- special licences, such as the HGV licence.

The importance of start-up costs has been recognised in a number of government initiatives in recent years, such as the Jobfinder's Grant, the four-week extended payment of Housing Benefit and Council Tax Benefit, and the Back to Work Bonus introduced as part of Jobseeker's Allowance in 1996 and Child Maintenance Bonuses introduced in April 1997.

There is little in the published literature about the actual start-up costs incurred by people when they begin a new job. However, we can draw on the pilot studies which informed the introduction of the Jobfinder's Grant, and on a survey of employers by the Institute of Manpower Studies for the Department of Education and Employment (Atkinson and Hillage, 1993) for information about employers' perspectives and responses to the problem of start-up costs.

The IMS study constituted a postal survey of almost 3,000 UK employing establishments, carried out in late 1992, which aimed to assess how far employers recognised and helped to alleviate the transitional costs for the unemployed as they moved into employment.

In the study, it was generally recognised by employers that the costs of a new job began before the actual commencement of work. In particular, the costs of attending an interview were seen as a potential barrier to people seeking work at all. This perception is borne out in other studies. For example, in the qualitative study of how poor families make ends meet conducted by Kempson *et al.* (1994), having presentable clothes for an interview was a problem, especially for long term unemployed people. They quote one respondent as saying:

*If you get an interview it's a miracle if you look well groomed. There are certain jobs that I can't apply for because I haven't got the image for it, even though I might have the skills ...*

(Kempson *et al.*, 1994, p.60)

The majority of employers in the survey by Atkinson and Hillage (1993) did not recompense applicants for costs incurred in attending the selection interview. Around 20 per cent of recruiters to unskilled semi-skilled manual jobs paid travel, or accommodation and subsistence costs. However, employers noted that the onus was usually on the applicant to ask for reimbursement rather than for it to be offered. For jobs higher up the occupational hierarchy, a larger proportion of employers reimbursed expenses, and were more likely to inform applicants rather than wait for them to ask.

Employers in the survey generally recognised the existence of start up costs but believed that the problem was not sufficiently serious or widespread to give them particular difficulties. Employers believed that hardship was caused by circumstances before the individual started employment rather than any attribute of the employment. Only one in ten employers expected the new recruit to provide themselves with essential items of clothing, tools or equipment.

Virtually no other requirements were identified. Where employers thought there was a start up cost the median estimated costs were about £40 for clothing, and £100 for tools.

Respondents provided a range of facilities to ease the transition into work, but workers lower down the occupational hierarchy were least likely to receive help. Fifty per cent of employers said they would provide an advance on a new starter's first pay packet, 18 per cent would provide some form of short-term loan, and six per cent some other financial assistance.

*Jobfinder's Grant pilot studies*

Jobfinder's Grant was introduced in April 1995 as a lump sum payable to people who have been unemployed for more than two years and who obtain low-paid work. Before its introduction the scheme was piloted in two areas in 1994.

In the West Midlands pilot, 1,500 one-off payments of £100 were made to people who had been unemployed for two years and who had found employment. In the East Midlands the amount of the grant was £200 which was awarded to 3,000 people. There were no restrictions on what the grant could be spent on, the intention was only to offer people a direct financial incentive to take up work.

For the purposes of this project the Employment Service allowed us access to a limited amount of relevant data from their own evaluation which included an investigation about the use made of the Jobfinder's Grant by recipients. It was found that the main value of the grant was generally to allow people to manage their regular expenditures between benefits stopping and wages being received. Respondents were asked specifically what they spent their grant on. Their replies were as follows:

**Table 2.1: Use made of Jobfinder's Grant**

<i>Type of expenditure</i>	<i>% of respondents</i>
Household bills, mortgage, rent, council tax, and household repairs	41
Clothing for the job	38
Transport costs, including car repairs	37
Food bills and general clothing expenses	34
Help with debts	30
Tools and equipment for the job	14
Other	6

Source: Moore and Dickinson, 1995.

This distribution of spending partly reflects the types of jobs that were taken up by the respondents. In the pilot exercise the eligibility criteria of the Jobfinder's Grant stipulated that payments would only be made in respect of jobs that paid less than £250 per week. For example, 44 per cent were plant and machine operators, 13 per cent were in craft related occupations, and 12 per cent were in personal or protective jobs. Fewer than one per cent were in managerial professions. Occupations of new starters in work generally paid low level wages, mainly because eligibility was based on remuneration in the pilot study of £250 a week or less.

### **Travel to work costs**

For most workers, travelling costs will also be a regular expense which may influence decisions about whether to remain in a particular job. The costs of travelling to work will also be a factor in some people's decisions about whether to look for or accept employment (we have already noted the views of employers about the problems with travel costs experienced by new starters - see section on *Start-up costs* above). McLaughlin *et al.*'s (1989) study of low income families found, for example, that earnings from low-paid employment were significantly reduced by the cost of travel (and other work) expenses. The problem was particularly acute for people in rural areas who might have long journeys to work.

The study by Erens and Hedges (1990) is a rare example of an *ad hoc* survey collecting information of the actual costs of travelling to work. The survey was aimed at assessing people's incomes in and out of work and therefore asked questions about travelling to work by car or motorbike, and about the use of public transport. Actual costs of travel tickets were obtained. The report of the project is now dated, but demonstrates the level of detail that can be obtained, and which is probably necessary for a full understanding of travel to work costs. Nevertheless, it is interesting to note their finding that in 1987, 28 per cent of their sample paid no travel costs, a similar percentage as we shall see later, to 1995-96 (Table 2.4 refers).

More up-to-date information about travel to work costs have been located in the following:

- the Family Resources Survey;
- the National Travel Survey;
- the Family Expenditure Survey.

#### *The Family Resources Survey*

The FRS asks direct questions about travel to work costs. In the third report (DSS, 1997) the following tables are presented:

- Travelling to work: working adults by distance, mode of transport and social class;
- Working adults' average weekly travel costs by mode of transport;
- Working adults' average weekly travel costs as a percentage of gross weekly individual income by social class.

Table 2.2 summarises the information about distances travelled and mode of transport for all social classes.

**Table 2.2: Travelling to work: working adults by distance, mode of transport**

<i>Distance</i>	<i>% of working adults</i>	<i>Mode of transport</i>	<i>% of working adults</i>
Work from home	7	Walk/bicycle	13
Varies - no usual place of work	7	Car/van	58
Under a mile	12	Motorcycle	1
1 but under 3 miles	21	Bus/train/tube	11
3 but under 5 miles	15	Work bus/company transport	1
5 but under 10 miles	17	Other	-
10 but under 25 miles	15		
25 miles or more	6	More than one mode of transport	2
<b>Base</b>	<b>25,248</b>	<b>Base</b>	<b>25,248</b>

Source: Table 7.8, FRS 1995-96 (DSS, 1997).

The table shows that over seven in ten working adults have to, or choose to, get to work by some means of motorised transport (either public or private) although a third travel less than three miles to work. The published reports do not present an analysis of the distances travelled by mode of transport, but such an analysis would show the extent to which people travel relatively short distances by car and hence the possibilities for reducing the costs of travel for some working adults.

Table 2.3 presents a summary of the published data on the costs of travelling by mode of transport.

**Table 2.3: Working adults' average weekly travel costs by mode of transport**

<i>Mode of transport</i>	<i>Weekly travel costs (% of working adults)</i>					<i>Total (base = 100%)</i>
	No costs	less than £10	£10 but less than £20	£20 but less than £40	£40 or more	
Walk/bicycle	100	0	0	0	0	<b>3,383</b>
Car/van	20	23	17	19	21	<b>14,744</b>
Motorcycle	11	68	17	4	0	<b>224</b>
Bus/train/tube	4	51	28	12	3	<b>2,710</b>
Work bus/company transport	72	16	4	4	2	<b>159</b>
More than one mode of transport	8	40	27	15	9	<b>439</b>
<b>All working adults</b>	<b>30</b>	<b>23</b>	<b>16</b>	<b>15</b>	<b>16</b>	<b>21,661</b>

Source: Table 7.9, FRS 1995-96 (DSS, 1997)

Table 2.2 showed the high proportion of working adults who rely on a car to get to work. Table 2.3 shows that car users incur the highest costs of those who travel to work. This has clear implications for jobseekers, particularly those looking for low paid or part-time jobs, who would have to drive to work. Thirty per cent of the sample reported zero travelling costs. The largest group among these were the walkers and cyclists; others using other forms of transport were presumably the beneficiaries of subsidised transport provided by employers. It would be useful to explore further using the FRS whether the working adults who did have zero costs were predominantly low paid or higher paid workers.

Whether or not travel costs represent a barrier or disincentive to people working will depend more on whether the costs are affordable in relation to income rather than the amounts paid. Table 2.4, derived from the FRS published report for 1995-96, shows working adults' average weekly travel costs as a percentage of their income for selected social classes.

**Table 2.4: Working adults' average weekly travel costs as a percentage of gross weekly individual income**

Percentage of gross income	Percentage of working adults			
	Manual skilled	Partly skilled	Unskilled	All working adults
No costs	32	37	50	30
Less than 10%	39	40	29	43
10 but less than 20%	13	11	12	14
20 but less than 30%	6	5	4	6
More than 30%	9	6	6	7
<b>Base</b>	<b>4,011</b>	<b>3,207</b>	<b>1,189</b>	<b>21,661</b>

Source: Table 7.10, FRS 1995-96 (DSS, 1997)

The social classes selected for this table are those at the lower end of the income range, and cover the kinds of jobs that the majority of unemployed people would be seeking. The table shows that in these social classes a higher than average proportion of workers are able to avoid any costs in travelling to work, with one half of the unskilled workers in the sample paying nothing to get to work. Travel to work costs are not, of course, completely outside the control of the individual worker. People have choices in whether to take particular jobs and may have choices of transport available. Where there *are* costs for people, the data in Table 2.4 can be analysed separately to investigate which social classes incur the burden of costs most heavily. Table 2.5 presents the results of the analysis.

**Table 2.5: Working adults' average weekly travel costs as a percentage of gross weekly individual income, for those who incur costs**

Percentage of gross income	Percentage of working adults			
	Manual skilled	Partly skilled	Unskilled	All working adults
Less than 10%	58	65	57	43
10 but less than 20%	19	18	24	14
20 but less than 30%	9	8	8	6
More than 30%	13	10	12	7
<b>Base</b>	<b>2,687</b>	<b>1,988</b>	<b>607</b>	<b>21,661</b>

Source: Table 7.10, FRS 1995-96 (DSS, 1997)

Table 2.5 shows that, when people are actually paying travel to work costs those in the manual and unskilled social classes are paying larger proportions of their income than the population of working adults. There is clearly an issue of possible disincentive effects for people in lower paid jobs, and importantly for those seeking similar types of work, if they are likely to be faced with large travel costs relative to their income.

The published reports of the FRS do not present travel cost data analysed by household or benefit unit type.

For the purpose of this report, therefore, we carried out an analysis of the travel costs of lone parents compared with two-parent families using a composite variable measuring the total household travel to work costs. This variable combined the costs of public transport season tickets, other fares, and the cost of motoring (including money paid by passengers to drivers of cars). In the FRS, the cost of motoring is computed using information about miles travelled (collected in the survey), and an assumed mileage cost. For the purposes of this exercise we used the Civil Service mileage rates for cars and for motorbikes. The data used for analysis was from the 1996-97 sweep of the FRS.

Table 2.6 shows the distribution of weekly travel to work costs for lone parent and two parent households.

**Table 2.6: Weekly travel to work costs for working lone parents and working couples**

<i>Weekly travel costs (£ per week)</i>	<i>All working lone parents</i>		<i>Two-parents - one or both working</i>	
	Number	%	Number	%
Free	299	38	1489	27
<10	229	29	886	16
10-20	98	13	718	13
20-30	20	3	326	6
30-40	61	8	545	10
40-50	11	1	227	4
50+	60	8	1319	24
<b>Base</b>	<b>778</b>		<b>5510</b>	

Source: New analysis of FRS data for 1996-97

Table 2.6 shows that in 1996-97 the proportion of lone parents with no travel costs (38 per cent) is higher than the population of working adults in 1995-96 (30 per cent). In general, lone parents' costs are at the lower end of the spectrum compared with two-parent families. Also striking is the high proportion of two-parent families paying relatively high amounts. Table 2.3 showed that 16 per cent of the working population was paying £40 or more a week in travel costs in 1995-96. In 1996-97, Table 2.6 shows that 28 per cent of two-parent families were paying this amount. Comparing the data in these two tables suggests that travel to work costs are likely to be an issue for two-parent families as well as for lone parent households. However, two-parent households are possibly likely to be able to afford higher costs. As we have seen in Tables 2.4 and 2.5, the published FRS reports do present an analysis of weekly travel to work costs as a percentage of gross income, but only by social class rather than by household type. We therefore know that social classes four and five (partly skilled and unskilled workers) pay a lower proportion of their incomes in travel costs compared with professionals and managers. We cannot use the published reports, however, to compare the costs of lone parent and two-parent households.

### *National Travel Survey*

The amount of information collected on the costs of travelling in the NTS is very limited. For each journey by public transport, the cost of tickets is recorded. For journey by car, the cost of parking is recorded. The amount of money spent on petrol in the seven-day period and the number of miles travelled by car are also recorded.

The latest report provides only information about the number of commuting journeys undertaken by the sample population, the mode of transport and the miles travelled. No data are presented on the costs of commuting.

Although there is little in the published reports from the NTS that can inform this review, the information collected could be used to estimate travel to work costs. Chapter Six explores the possibilities further.

### *Family Expenditure Survey*

The FES collects information on the expenditure of households using the technique of quantitative questionnaires and expenditure diaries which are completed for a continuous two-week period. Information on travel expenditure appears under the following headings in FES official reports (for example, Office for National Statistics, 1997).

#### Motoring

- purchase of vehicles
- spares and accessories
- repairs and servicing
- insurance and taxation
- petrol, diesel and oil

#### Fares and other travel costs

- rail and tube fares
- bus and coach fares
- air and other travel
- purchase and repair of bicycles and boats

It can be seen that the FES is a comprehensive and accurate record of spending. However, the reason for each expenditure is not recorded. It is not possible, therefore, to link individual expenditures with travelling to work. The potential of the FES for providing data about travel to work costs is considered in Chapter Seven.

### *Other data on travelling to work*

The annual LFS collects information about time required for journeys to work, and the mode of transport, but not the cost.

### **Other costs**

Other costs associated with working include the following:

- trade union or professional association subscriptions;
- food and refreshments;
- social activities.

### *Trade union and other staff association subscriptions*

The only source of information about people's expenditure on subscriptions to trades unions and other professional staff associations is the FES. However, the main publication of the FES, *Family Spending*, does not include information derived from the data collected.

The LFS collects information on membership of trades unions, but not on expenditure on subscriptions.

### *Food and refreshments*

Again the only source of information about food and drink purchased at work is to be found in the FES. Data is collected under the following headings:

- meals at work (fish and chips, and other);
- meals at work (sandwiches, cakes etc.);
- meals at work (non-alcoholic drinks).

The latest edition of *Family Spending* (Office for National Statistics, 1977) does not include data under these headings but the report for 1994-95 states that average weekly expenditure for all households on workplace meals was £1.37. However, only 2,556 households (i.e. 39 per cent of the 6,583 participating households in that year) recorded expenditure under these headings. The average costs for households actually buying food in the workplace was therefore approximately £3.50 a week.

### *Social activities*

Expenditure on social activities would include outings, contributions to presents, and membership of lottery or pools syndicates. Although these payments must be seen as essentially voluntary there may be considerable peer pressure to participate. However, there is

no published data on these types of payment, and while the FES does collect details of all spending it does not seem likely that spending on, for example, lottery or pools syndicates could be linked to work.

### **Conclusion**

As we shall see in Chapter Six, travel to work costs is one of the concerns most cited by people on benefits contemplating a return to work. This chapter has drawn principally on the FRS (in its published reports and new analysis) to investigate what people actually pay for getting to their place of work.

The main points to emerge can be summarised as follows:

- nearly a third (30 per cent) of all working adults pay nothing in travel to work costs;
- over two-thirds of working adults who travel to work go by car or van;
- nearly half of those paying nothing still use a car;
- social classes four and five (i.e. the partly skilled and unskilled) pay the least;
- of those that pay for travel 43 per cent pay £10 a week or less;
- lone parents pay less than two parent households;
- four in 10 lone parents pay nothing to travel to work; a quarter of two parent households pay nothing;
- nearly a quarter of two parent households pay over £50 a week;
- four in 10 people pay for food at work at a weekly cost of £3.50 in 1997.

Clearly the amount that people pay in travel to work costs depends on a number of factors, some of which are outside their control, but some of which are a matter of choice or preference. Unfortunately, the FRS in its present form does not enable us to untangle this complex picture. However, it seems safe to suggest that *ability to pay* will play a significant part in explaining differences between, for example, lone parent and two-parent households.

Data on some of the other costs associated with working are thin. Expenditure on some items is available (for example, in the FES) but cannot be linked definitively to work. Nevertheless, the evidence that so little is spent on average on food at work suggests that other costs are unlikely to play a significant part in the majority of people's decisions about the viability of work compared with travel costs and, as the next two chapters demonstrate, the costs of child care.

## CHAPTER THREE

### THE COSTS OF CHILD CARE: ANALYSIS OF PUBLISHED DATA

#### Introduction

The costs of child care have been prominent in debates about the labour participation of lone parents. It is now an integral element of the *Welfare to Work* New Deal strategy to get more lone parents into paid employment as a long-term solution to child poverty and to reducing expenditure on social security. Studies of lone parents have formed part of the programme of research into low income families (PRILIF) undertaken since 1991 by the Policy Studies Institute (PSI) (see, for example, Finlayson *et al.*, 1996; Finlayson and Marsh, unpublished; Ford, 1996 and 1998; Ford *et al.*, 1997).

For some groups of the population child care is irrelevant. For others, the cost of child care will be one of the main determinants of whether it is worthwhile going out to work. In recent years there have been a number of *ad hoc* studies which have addressed the question of the need for, and the cost of child care. In addition, the FRS is a source of continuous data. Of the other major continuous surveys only the FES collects detailed information about the cost of child care. The extent to which the FES could provide useful information on the costs of working is considered in the final chapter.

Studies of the costs of child care often present simple figures showing the average costs per family per week. These can be misleading, however. For example, calculations of average costs which include data from families who either do not need child care or who receive it free of charge, are of little help in understanding the impact of child care costs on families, or in formulating policy responses.<sup>1</sup> As we shall see later in this chapter, the majority of parents in work use informal child care (friends or relatives). This is cheaper than registered care and helps explain the low average costs of child care reported by many studies. Some studies usefully include analyses which go beyond a simple calculation of an overall average. The following have appeared in research reports, for example:

- costs compared with hours worked;
- costs compared with amount of child care purchased;
- costs compared with net earnings;

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<sup>1</sup> In the 1997 edition of *Family Spending* (Table 7.1, Office for National Statistics, 1997) the average cost of child care is given as £0.83 per week, and the cost of nurseries, creches and playschools as £0.63 per week. However, only 35 per cent of households in the FES sample were recorded as including one or more children. The published figures therefore do not provide a useful indication of the cost of child care.

- costs compared with hourly wage rate;
- costs compared with age of youngest child.

It is also helpful to know the relative costs of different types of child care. Some studies have attempted to provide some detail by including analyses of costs according to the following categories: nanny, mother's help, private day nursery, childminder, friend or neighbour, sports or recreational club, local authority day nursery, children's or voluntary sector organisation, and after school club.

Comparing results across the different studies reported here is difficult because there is little consistency in the way they define, collect, analyse and present data on the costs of child care. In this review, therefore, we have selected what appear to be the most salient. The chapter has been organised in the following way. First, summaries of recent major studies of the use and costs of child care are presented (in roughly chronological order). In the second part of the chapter, we refer to other, sometimes smaller-scale, pieces of work or writing that contain useful information or insights. Data on child care costs available through the Family Resources Survey are discussed separately in the following chapter which also includes the results of new analyses of the FRS data set for 1996-97 carried out by DSS specifically for this review.

### **Recent major studies of child care costs**

*Marsh and McKay (1993)*

In 1991 the PSI carried out a survey of over 14,000 recipients of Child Benefit to identify a sample of low income families for a study of the effects of Family Credit. In doing so, a sample of 4,300 women with both paid jobs and dependent children was generated which, the authors argue, can be treated as a nationally representative sample.

The results from the PSI study demonstrate the complexity of measuring the use and costs of child care. However, they found that, of their sample, 29 per cent of lone parents who had paid employment actually paid for child care, at an average cost of £24.60 a week. Of two parent families, 22 per cent paid for child care at a cost of £32.40 a week. Combining these groups, they conclude:

*Overall, the best national estimate is that the 23 per cent of working parents who pay for child care pay on average £30.70.  
(Marsh and McKay, 1993, p.366)*

The authors attempt to make some comparison between their figures and those of Martin and Roberts (1984) which were based on a survey by the Office of Population and Census Surveys (now ONS) in 1980. They converted the 1980 expenditure figures to 1991 prices using price inflation and wage inflation. Hence, the average cost of childcare in 1980, £8.70 a week, was equivalent to £18.70 in 1991 (reflating for price inflation) and £21.80 (using wage inflation). Both figures fall short of the £30.70 a week paid by all families in 1991. Direct comparison was hampered by, for example, different definitions of full-time work, and more work on both sets of data was recommended by the authors. However, they felt confident enough to conclude that between 1980 and 1991:

- More mothers of dependent children have paid jobs, though the trend for lone mothers is less clear.
- The steepest increase is among those with pre-school children.
- A greater proportion pay for child care, using professional child care.
- Those who pay, pay more in real terms.

(Marsh and McKay, 1993, p.368)

*General Household Survey 1991 (Bridgwood and Savage, 1993)*

As mentioned in Chapter One, the GHS, carried out annually, includes a standard core of questions, but also sets of questions which address an issue of current policy interest. In the 1991 Survey, questions about the use and cost of child care were included. The published report (Bridgwood and Savage, 1993) contains a separate chapter on the analysis of the data, including 31 tables, many of which relate to costs.

Questions about the care of the under-fives differed from those for children aged 5-11 years. No questions were asked about older children. For the under-fives, details were collected about care arrangements even if they were not being used at the time of the interview. Respondents were also asked for how many weeks, and for how many hours each week they used each arrangement. Children aged 5-11 were assumed to be attending school. Questions were limited to the week prior to the interview. The report makes clear that 'figures for the two age-groups are therefore not strictly comparable' (p.130). The key findings about the costs of child care, based on data from over 2,400 families with children under 12, were as follows:

- 48 per cent of all the arrangements made for under-fives were free, and an additional 28 per cent cost £5.00 or less a week per child. Only 13 per cent paid more than £20 a week (p.134)

- 70 per cent of all the arrangements made for 5-11 year-olds were free, and an additional 13 per cent cost £5.00 or less a week per child. Only seven per cent paid more than £20 a week (p.134)
- 26 per cent of under-five arrangements, excluding unpaid family and friends, cost 50p or less an hour for each child, while an additional 24 per cent cost between 51p and £1.00 (p.133)
- childminders and nannies were the most expensive form of child care, with a mean cost of £1.46 per child per hour, compared with a mean hourly cost for each child of 85p for nursery schools, 65p for private and voluntary schemes, and 55p for local authority schemes (p.133)
- the mean hourly cost of arrangements for 5-11 year-olds, excluding no-cost facilities, was £1.42, compared with an hourly mean of 90p per child for under-five arrangements (p.134).

Notwithstanding the acknowledgement that data on the two age-groups are not strictly comparable, the table below (derived from two tables in the 1991 GHS report) is useful in emphasising the different demands and the different costs of child care for pre-school and school age children.

**Table 3.1: Weekly cost of child care per child, for under-fives and children aged 5-11, (1991 figures)**

<i>Weekly cost per child</i>	<i>Under-5s (%)</i>	<i>Children 5-11 (%)</i>
No cost	48	70
£0.01 - £5	28	13
£5.01 - £10	9	7
£10.01 - £20	4	6
£20.01 - £40	6	3
Over £40	4	0
<i>Average cost per week</i>	<i>£6.74</i>	<i>£3.04</i>
<b>Base</b>	<b>1130</b>	<b>470</b>
<i>Average cost for week (excluding no cost arrangements)</i>	<i>£12.95</i>	<i>£10.14</i>
<b>Base</b>	<b>585</b>	<b>140</b>

Source: Tables 7.21 and 7.27, 1991 GHS (Bridgwood and Savage, 1993)

A useful indicator of the burden of child care on the household income is the percentage of income spent on child care costs. The GHS report includes the following table (which relates to the care of the under-fives only), which shows that the burden is greatest for those with lower incomes.

**Table 3.2: Child care for children under five; proportion of gross weekly household income spent on child care by usual gross household income (1991)**

Percentage spent on childcare	Gross weekly income (£)				All
	£0.01 - £100.00	£100.01 - £200.00	£200.01 - £300.00	Over £300	
less than 10%	78	87	93*	94	91
10-20%	12	8	5*	5	6
over 20%	10	6	2*	1	2
<b>Base</b>	<b>50</b>	<b>52</b>	<b>43</b>	<b>272</b>	<b>417</b>

Source: Table 7.27, 1991 GHS (Bridgwood and Savage, 1993)

\* = percentages based on fewer than 50 cases.

The GHS published data are useful in differentiating between the provision and costs of pre-school and school age children. However, there is no analysis of the differences between lone parent and two-parent households in their need for and payment for child care. However, the re-analysis of the GHS data by Duncan *et al.* (see below) does differentiate between family types.

*Duncan, Giles and Webb (1995)*

Duncan *et al.* reanalysed the 1991 GHS data in their study of the likely impact of subsidising child care. They looked at the average weekly costs of child care and the average hourly rates by the form of child care, by marital status, by the age of the youngest child, by the number of under-fives in the family, and by the hours worked by the parents. Among their findings were the following:

- the average weekly expenditure of child care in 1991-92 by all families was £6.16;
- 38 per cent of families paid for child care;
- the average weekly expenditure of child care in 1991-92 by families that actually paid for child care was £16.33 at an hourly rate of £0.79;
- weekly expenditures varied significantly by the form of care; childminding was the most expensive type of child care, followed by multiple forms of care;

- there was a positive link between hours of waged employment and hours of paid child care used by mothers of under-fives.

They interpret their findings to reach the following conclusions:

- many women are dependent on child care in order to enter the labour market, and high child care costs would act as a barrier to employment
- there is a greater ability to afford more expensive forms of care as a woman's hours of work increase, and/or a necessity to purchase more expensive forms of care as options for subsidised care are limited.

*Shaw, Walker, Ashworth, Jenkins and Middleton (1996)*

This was a study to investigate the factors which prevent or facilitate movements off Income Support (IS). A large survey was conducted of 1,020 people who received IS for all or part of the period September 1992 to June 1994. The key findings as they relate to child care costs are summarised below.

Among the sample, 72 people had turned down an offer of a job and were asked the reason or reasons why. The most commonly cited reasons concerned pay - either the job did not pay enough or the rate was perceived as unfair for the work involved. However, the sixth most common reason was that travel costs were too high (mentioned by 18 per cent). A further eight per cent said it would be 'too expensive to start a new job', and four per cent said that their child care costs were too high.

Only 18 (seven per cent) of the respondents, 16 of whom were lone parents, who moved into paid work had needed to make child care arrangements. Seven paid nothing, most paid between £3 and £30 a week. Most care was informal (in 16 out of the 18 cases). A quarter of those finding work did not need child care while they were working (for example, because they worked school hours only, or because a partner was available).

*Finlayson, Ford, and Marsh (1996)*

The analysis for this article is based on three waves of the survey of low income families which formed part of the PRILIF programme mentioned earlier. The surveys, in 1991, 1992 and 1994, were based on samples of families with working mothers (over 3,000 in each wave).

Table 3.3 below presents data on the amounts parents were paying for child care in 1994.

**Table 3.3: Payments for child care, 1994 (PRILIF data)**

	<i>Percentage of families</i>
<i>Percentage of working families paying for child care</i>	25
<i>Percentage of paying families paying:</i>	
£1-20 per week	31
£21-40	29
£41+	40
<b>Base</b>	763

Source: Finlayson et al., 1996

The PSI research can also be used to establish trends in child care use and payment. For example, the findings reported in this article include the following:

- between 1991 and 1994, the proportion of working women using child care rose
- family spending on child care rose;
- more lone parents than couples pay for child care;
- child care costs rose 27 per cent for lone parents and 25 per cent for couples between 1991 and 1994;
- average spending on child care per hour worked rose from £1.01 to £1.54.

The Finlayson article presents data on the differing patterns of use of child care (in terms of the hours used and the type of care, i.e. professional or informal) between lone parents and mothers with partners and between those working full-time and part-time. This information is particularly salient because child care disregards are based on the use of professional care only. Parents making use of informal care are not eligible for the disregard.

Table 3.4 is reproduced from the article and shows the distribution of types of child care in 1992 and 1994. 'Working mothers' includes working lone parents and working mothers with full-time working partners.<sup>1</sup>

'Professional' child care includes childminders, nannies, nursery or crèche, nursery school or playgroup, and after school or holiday playscheme. Informal care includes care by family members or friends. 'Avoiding care' means working from home or working school hours only.

Table 3.4: Child care arrangements of all working mothers

Child care arrangements	Per cent	
	1992	1994
Professional only	11	12
Combination of professional and informal	9	11
Informal only	44	45
No care - child old enough to look after him/herself	14	14
No care - need for care avoided	22	19
Base	3120	3087

Source: Finlayson, et al (1996), p.297.

So, in 1994 just under a quarter of working mothers (23 per cent) were using professional child care, a slight increase from 1992. Table 3.5 presents data on what people spend on child care.

<sup>1</sup> It is not clear in the article whether mothers with part-time working partners and working mothers with a part-time or non-working partner are excluded from the analysis.

**Table 3.5: Spending on child care by working mothers**

	Per cent		
	1991	1992	1994
Pays (%)	23	22	25
Does not pay (%)	77	78	75
Base	3929	3120	3090
Weekly amounts paid by those who pay			
£1-20	38	39	31
£21-40	33	29	29
£41-60	9	16	20
£61-80	5	7	10
£81-100	2	5	6
£100+	4	3	4
Mean (£)	30.70	36.92	43.46
Median (£)	24.20	30.00	35.00
Base		665	763

Source: Finlayson, et al. (1996), p.298.

The mean figure for 1994 is, according to the authors, disproportionately influenced by a few people who pay very large weekly amounts for care. Removing them from the calculation of the mean reduces the figure from £43.46 to £38.82. However, even with this readjustment the increase in spending between 1991 and 1994 is more than one and a half times the rate of wage inflation over the same period.

The following table shows that of mothers who pay for child care in 1994, most are paying for professional care.

**Table 3.6: Weekly spending on child care by working mothers by type of child care arrangement**

Weekly amounts paid by those who pay	Per cent		
	Professional care only	Combined informal and professional care	Informal care only
£1-20	19	34	52
£21-40	21	35	34
£41-60	25	19	10
£61-80	16	7	2
£81-100	10	4	1
£100+	9	1	-
Base (row %)	336 (44)	266 (35)	160 (21)

Source: Derived from Finlayson, et al. (1996), Table 8, p.300.

Combining the information in Tables 3.4 and 3.6 gives an indication of the overall use of child care and how it is paid for.

**Table 3.7: Type and cost of child care used by lone mothers, 1994**

Type of child care	Numbers using child care in 1994 <sup>1</sup>	No. paying	% paying
Professional only	355 - 383	336	95 - 88
Combination of professional and informal	324 - 352	266	82 - 76
Informal only	1374 - 1401	160	12 - 11
Base	3087	762	

<sup>1</sup> The ranges in this column are estimates based on the percentages in Table 3.4.

Source: Derived from Finlayson, *et al.* (1996), Table 4a, p.297 and Table 8, p.300.

This table shows how relatively few working mothers pay for informal child care; most is provided free. These mothers presumably will not be affected, either positively or negatively, by child care disregard policies that restrict eligibility by excluding informal arrangements.

However, mothers without access either to free informal care or to professional care will find it harder to overcome the barrier to work of child care costs.

The article allows a comparison of child care payments made by lone parents and by couples. Table 3.8 below summarises payments made in 1994 by lone parents and couples by the amount of work undertaken.

**Table 3.8: Spending on child by lone parents and couples, 1994 (PSI analysis)**

Weekly amount	Per cent			
	Lone parents working part-time	Lone parents working full-time	Mothers working part-time with full-time working partner	Mothers working full-time with full-time working partner
£1-20	71	34	39	24
£21-40	20	34	36	25
£41-60	6	19	16	22
£61-80	-	8	5	14
£81-100	-	5	3	9
£101+	3	-	1	8
<b>Base</b>	<b>35</b>	<b>105</b>	<b>221</b>	<b>401</b>

Source: Derived from Finlayson *et al.* (1996), Tables 5b and 5c, p.298.

This table suggests that lone parents pay less for child care than comparable couples. Lone parents working full-time and both members of a couple working full-time are likely to require the most child care (although the hours of work will affect the amount of child care needed). From the table, we can see that just over a third of lone parents pay relatively little (i.e. £20 or less per week) compared with just under a quarter of couples.

*Ford (1996)*

Ford presents an analysis of a national survey of 850 lone parents carried out in Autumn 1994 and a follow up depth study of 57 parents (part of the PRILIF programme). The report examines, among other things, the extent to which child care acts as a barrier to finding work. The survey showed that more than one-third of lone parents who were out of work said the cost of child care was a constraint on taking work of 16 hours or more. Thirteen per cent said that availability was the real problem rather than cost. Of working parents in the sample, two-

thirds used child care. The rest worked only in school time or let children look after themselves. Forty-two per cent of those using child care paid for it, at an average cost of £33.20 a week in 1994. Half paid less than £25 a week. Average cost per hour worked was £1.01 (though for half the sample it was less than £0.88). Lone parents (who paid for care) paid around one-fifth of their after-tax earnings.

Ford's study also demonstrates the effect of child care costs on marginal rates of pay. Table 3.9 presents Ford's simulation of the financial incentive to work for a 'model' lone parent paid £3.66 an hour, with an hourly child care cost of £0.88.

**Table 3.9: Financial incentive to work different numbers of hours for 'model' lone parent with hourly child care cost of £0.88 (without child care disregard)**

<i>Return (in £ per week) from each additional hour worked compared to:</i>	<i>Number of hours worked</i>			
	5	16	24	35
Out of work	£2.12	£1.89	£1.05	£0.53
Working 5 hours		£1.79	£0.76	£0.27
Working 16 hours			-£0.65	-£1.30
Working 24 hours				-£0.59

Source: Ford, 1996, p.75

The table shows how lone parents can become caught in a worsening poverty trap if they try to increase their hours, the severity of the trap depending on the hours the lone parent is working to start with. For example, a lone parent who increased her working hours (and therefore her child care requirements) from 16 hours to 24 hours a week would actually suffer a net loss of £0.65 an hour.

However, the costs of child care are only one influence on lone parents' labour market decisions. The picture is more complicated than that. As Ford comments:

*The economic participation rates of women with dependent children have more than doubled since the mid-60s, but this has been achieved over a period of very little public investment in care facilities.*

(Ford, 1996, p.9)

He later concludes:

*It is apparent ... that while child care may present an immediate and intractable problem for some, it is far from the only reason keeping lone parents out of work.*

(Ford, 1996, p.9)

Ford makes the useful point that it is not solely the *cost* of child care which is relevant to lone parents' decisions about taking work - it is the *affordability* of care. For some people considering a job paying a given wage, the cost of child care will be too high. However, if they had the opportunity of a higher wage the child care might become affordable. Furthermore, affordability was linked to the income packages (including earnings, private sources such as maintenance, and benefits) that lone parents could put together in their particular circumstances

### **Other studies involving the costs of child care**

*Department of Health Survey of Day Care Services for Children in 1990 (Meltzer, 1994)*

In 1990 the Department of Health carried out a survey of parents on the use of child care services. The survey covered children under the age of eight only who were living in private households, and generated data about 5,525 children from 3,705 households. The data from the survey are inevitably a little dated but the findings from the study remain relevant.

The cost of child care was mostly an analysis of mean or median hourly rates of those who paid for care. The cheapest form of child care was provided by a children's or voluntary sector organisation. Childminders were more expensive but the most expensive care was that provided by a children's nanny. This finding reflects the economies of scale achieved by caring for groups of children rather than the individual children or sibling groups commonly looked after by a nanny employed by a single family.

The survey also showed that the most important factors affecting child care during school holidays were the mother's work status and the family type (i.e. one or two parent family). Seven per cent of working mothers stopped work altogether during school holidays; 69 per cent did not, or could not, make any special arrangements. The fewer the hours worked the more likely the mother was to take the child to work with her.

In Kempson *et al.*'s study (1994) of how poor families make ends meet, half of all non-working mothers said lack of child care, high costs and the expectation of low wages were the main reasons for not working. Child care was reported as being in short supply for pre-school age and school age children.

The study identified that, for lone mothers, the additional cost of going to work, such as paying for child care, school meals, fares to work and suitable work clothing all influenced decisions about work. Of these, the cost of child care was seen as the largest additional

expense and the one most often taken into account - £30 and £45 a week for a pre-school child was considered normal. (Fares to work were thought about less frequently by people who were not working.)

McKay and Marsh (1994) offer an interesting insight into the relationship between the costs of child care and mothers' decisions about whether or not to work. They conclude that as earnings rise, the cost of child care increases to a roughly stable level of about one quarter of earnings. For lone parents, they suggest that a reservation wage is roughly calculated by deducting one quarter of the expected wage for tax and National Insurance and a further quarter for childcare.

Harrop and Moss (1994) analysed data from the Labour Force Survey from 1981 to 1989 to explore trends in the labour market activity in the 1980s. They found some evidence that child care costs had increased during the decade when the earnings potential for the average lone parent had fallen. Thus child care took a greater proportion of the income for low earners compared with higher earners.

Shaw *et al.* (1996) reports on 25 qualitative interviews with selected respondents to the 'Barriers to Moving Off Income Support' project. The sample was chosen to cover two distinct types of person: (a) those with a 'lengthy spell' on benefit of at least six months, and (b) those who had experienced more than one spell on benefit in the preceding two years. Among lone parents child care issues were the main barrier to employment, with full-time care a barrier for parents of pre-school children. Respondents reported costs of between £50 and £100 a week. Two lone parents had been able to work only because they were able to arrange free (informal) care.

Bryson and Marsh (1996) conducted a nationally representative survey of 1002 families who were interviewed six months after leaving Family Credit in September 1993 (four to six months before the introduction of the £40 Family Credit child care allowance). Findings relevant to the cost of child care include the following (p.75):

1. At the time of the interview, 30 per cent of families needed child care while a parent, or both parents, went to work. Of these, one-quarter paid for child care, the mean cost being £30 a week.
2. One in 10 lone parents were using child care, compared with one-third of couples, the difference being due to the higher proportion of couples in paid work. Of those in work, 37 per cent of lone parents were using child care.

3. Lone parents were more likely to have to pay for their child care - half of them did so compared with one-sixth of couples.
4. A quarter of the families in the sample said they would have to use child care if they worked 16 hours or more a week. Of these, four in ten anticipated having to pay for that child care, a proportion rising to two-thirds among lone parents.

Elam and Thomas (1997) offer a useful insight from their qualitative study carried out in 1996 of 104 people claiming out-of-work benefits but doing either part-time or voluntary work. They found that lone parents could not afford child care from their £15 a week Income Support disregard making part-time work an option only if free or very cheap child care was available 'a scenario which was rare' (p.23). The authors also comment that where one of a couple had taken part-time work it was often because work-related costs were low and the job 'complemented existing domestic arrangements'.

Ford *et al.* (1998) reports on four waves of the 1991 cohort of lone parents (part of the PRILIF programme). Surveys were carried out in 1991, 1993, 1994 and 1995. There are no detailed data on the costs of child care but there is a useful analysis of the changing use of child care over time. It was found that, where there were no additional children in the family, child care requirements reduced as their children got older. The proportion of users who had to pay for care fell from 37 per cent, to 30, to 29 and to 28 over the four waves. The decline was evident also among those who worked most. Of those working 16 hours or more throughout the study period, 46 per cent paid for child care in 1991, falling to 39 per cent in 1994 and 34 per cent in 1995.

### **Discussion**

Policy and research interest in child care costs is not surprising since, for those for whom it is relevant, it is likely to be the largest single outgoing associated with going to work.

The relationship between child care and employment is not straightforward, however. In a study by Jenkins and Symons (1995), based on econometric modelling of lone mothers' labour market participation (cited in Ford, 1998), it was found that although child care costs were a statistically significant disincentive to work, the effect was only small. Jenkins and Symons, therefore concluded that 'it appears that in the UK the impact of child care costs is important, but perhaps rather less important than one might have expected from the emphasis in popular discussion' (Ford, 1998, p.211). This assessment may seem to be borne out by the relatively small percentages of working families who actually pay for child care, but for some

of those who do pay, the cost is not insignificant either in terms of their actual outlay or in terms of the proportion of their income that child care consumes.

The survey-based studies reported in this chapter which use data from 1991 and 1992 reveal two contrasting pictures. The studies which analysed the General Household Survey data consistently produce lower child care costs than the Marsh and McKay study which was based on a sample of low income families only. The later studies based on 1994 data from low income families and from lone parents show levels of costs comparable to Marsh and McKay. Table 3.10 summarises the main findings from these studies.

**Table 3.10: Summary of findings from large quantitative analyses of the costs of child care**

<i>Study</i>	<i>Date and type of data*</i>	<i>% of all families paying for child care</i>	<i>Average weekly cost (£)</i>	<i>Lone Parents</i>	<i>Couples</i>
<i>Marsh and McKay (1993)</i>	1991 (LIF)	23	30.70	29% @ 24.60	22% @ 32.40
<i>Bridgwood and Savage, 1993</i>	1991 (GHS)	52 for under 5s; 30 for 5-11s	12.95 for under 5s; 10.14 for 5-11s		
<i>Duncan, Giles and Webb (1995)</i>	1991-92 (GHS)	38	16.33		
<i>Finlayson, Ford, and Marsh (1996)</i>	1994 (LIF)	25	38.82**		
<i>Ford (1996)</i>	1994 (LPs)			28% @ 33.20	

\* LIF = survey of low income families

GHS = General Household Survey

LPs = survey of lone parents only

\*\* excluding outliers with exceptionally high child care costs

These studies strongly suggest that sampling designs have a significant impact on the results generated about the actual costs to working families of child care. They will be compared further with the findings from the analysis of the Family Resources Survey presented in the next chapter before overall conclusions are drawn about child care costs.

**CHAPTER FOUR**  
**THE COSTS OF CHILD CARE:**  
**DATA FROM THE FAMILY RESOURCES SURVEY**

**Introduction**

As mentioned in Chapter One, the FRS was set up by the DSS in 1992. The time period covered by this review includes the first four waves of the survey, each of which included around 26,000 households. Up to March 1998 three reports had been published (DSS, 1995, 1996, 1997). However, specifically for the purposes of this review several new analyses have been carried out using the 1996-97 data set. None of these appears in the published literature.

The first part of this chapter looks briefly at the content of the published reports regarding child care costs; the second part presents the results of the new analyses; and finally some conclusions are drawn from both this and the preceding chapter.

**The published reports**

The FRS collects data on the costs of child care (a) during term time, and (b) during school holidays. The more recent published reports present data in the following:

- I. a table analysing benefit units with children by weekly costs of child care and by economic status;
- II. a table of benefit units with child care costs by weekly costs as a percentage of gross weekly income and by economic status.

This choice of presentation offers some useful new perspectives on child care costs, but also has some limitations. For example, the distinction between term time and holiday costs is clearly of relevance for people with younger school age children. Also, analysis by economic status demonstrates, for the first time, the differential costs of child care for self-employed people, those in full-time work and those in part-time work.

Table 4.1 below is derived from the 1997 report (covering the data for 1995-96) and shows the costs of child care by economic status.

**Table 4.1: Benefit units with children by weekly costs of child care and economic status**

<i>Percentage of benefit units with children</i>						
Weekly costs of child care	Economic status					Total benefit units
	Self employed	Single or couple, all in full time work	Couple, one in full-time, one in part-time work	Couple, one in full-time work, one not working	One or more in part-time work	
<b>Term time costs</b>						
<£10	7	4	18	10	21	10
£10-20	11	14	22	12	40	17
£20-30	17	17	15	6	13	16
£30-40	9	13	13	18	5	12
£40-50	6	8	6	12	10	8
£50+	48	44	26	42	11	37
<b>Base</b>	<b>149</b>	<b>451</b>	<b>274</b>	<b>50</b>	<b>62</b>	<b>991</b>
% paying for child care	13	30	16	3	10	12
<b>Holidays</b>						
<£10	2	2	10	10	16	5
£10-20	6	8	18	3	24	11
£20-30	12	12	16	8	9	13
£30-40	16	11	15	13	15	13
£40-50	7	10	10	10	13	10
£50+	69	57	31	59	23	58
<b>Base</b>	<b>138</b>	<b>392</b>	<b>239</b>	<b>40</b>	<b>55</b>	<b>869</b>
% paying for child care	12	26	14	3	9	10

Source: Table 7.11, FRS 1995-96 (DSS, 1997)

This table demonstrates the level of analysis that can be achieved with a large initial sample. The results themselves are also interesting. The table shows that the highest weekly amounts of child care (over £50) are paid by self-employed people and households where all adults are in full-time work, probably reflecting the greater number of hours of child care required by them. Households with one adult in full-time work and the other adult not working also tend to pay higher amounts for child care despite there being one adult potentially available to provide free care. It is possible that the small number in this group includes households where the second adult is either long-term sick or disabled.

The number of households using child care in school holidays falls by about 12 per cent compared with term time. However, those that pay, pay more across all economic status groups, the self-employed showing the greatest increase.

Table 4.1 appears to show that relatively few households pay for child care - 12 per cent in term time and ten per cent in holidays. This contrasts with the picture presented in Table 3.10 which suggested that around 25 per cent of low income or lone parent families paid for child care. The reason for this apparent discrepancy probably lies in the use of *benefit units* as the unit of analysis in the published FRS reports. Total benefit units will therefore include households with children where one or both adults is *not* in paid work (around 2,000 households in the 1996-97 FRS data set). Most other studies prefer to present data on child care costs for households where at least one adult is in work.

Table 4.2 uses the same data and shows the burden of child care costs on people with different levels of income.

**Table 4.2 Benefit units with child care costs by weekly costs as a percentage of gross weekly income and by economic status**

<i>Percentage of benefit units with children</i>						
Weekly costs of child care	Economic status					Total benefit units
	Self employed	Single or couple, all in full time work	Couple, one in full-time, one in part-time work	Couple, one in full-time work, one not working	One or more in part-time work	
<b>Term time costs</b>						
0.1 - 10%	62	68	87	76	73	73
10-20%	24	25	11	16	18	20
20-30%	7	4	1	2	6	4
30-40%	5	1	-	4	0	2
40-50%	1	1	0	2	0	1
over 50%	1	1	0	0	3	1
<b>Base</b>	<b>149</b>	<b>451</b>	<b>274</b>	<b>50</b>	<b>62</b>	<b>991</b>
% paying for child care	13	30	16	3	10	12
<b>Holidays</b>						
0.1 - 10%	54	54	82	65	47	62
10-20%	30	35	16	20	29	28
20-30%	7	7	2	5	11	6
30-40%	6	2	-	5	7	3
40-50%	1	1	0	3	2	1
over 50%	2	1	0	3	4	1
<b>Base</b>	<b>138</b>	<b>392</b>	<b>239</b>	<b>40</b>	<b>55</b>	<b>869</b>
% paying for child care	12	26	14	3	9	10

Source: Table 7.12, FRS 1995-96 (DSS, 1997)

Table 4.2 shows that for people who pay for child care, the majority pay less than ten per cent of their household income during both term time and school holidays. At the other end of the spectrum there are a number of households (though representing a small percentage) paying over half their incomes in child care costs. Again the self-employed and households where all adults are working full-time pay comparatively higher proportions of their incomes. In all economic groups the burden of paying child care increases during school holidays, but households with a full-time and a part-time worker appear to experience the least impact.

Though useful, the published FRS reports do not present separate data for lone parents as a separate social group which are clearly of particular policy and public interest. The following section begins to address this information gap.

#### **New analysis of the 1996-97 data set**

The 1996-97 FRS includes 2,109 lone parent families, and 6,140 two-parent families. Data in relation to households with more than two adults do not appear in the tables which follow since the large number of permutations for mixing work and childcare in multi-adult households would make interpretation of comparative data problematic.

Table 4.3 compares the percentages of people working and paying for childcare in lone parent and two parent households.

**Table 4.3: Summary of 1996-97 FRS data on child care**

	<i>Lone parents</i>	<i>Two parent households</i>
Number in FRS sample	2109	6140
Number (and %) in paid work	778 (37%)	5510 (90%)
Number paying for childcare	167	891
- as % of numbers in work	(21%)	(16%)

Source: New analysis of *Family Resources Survey* data for 1996-97.

Table 4.3 shows that lone parents are much less likely to be working than one of the members of a two parent household, they are more likely to be paying for child care.

In interpreting tables that follow it must be remembered that child care costs are dependent upon a number of factors. Holtermann (1993), for example, identifies the following factors which influence the amount parents pay for child care: the number of children, the ages of the children, household income, and hours worked. The effect of the interaction of these factors will also be different for lone parent and two parent families. Holtermann, lists the main differences between the two groups as follows:

- I. lone parents have fewer children than two parent families;
- II. working lone parents have fewer children under 5 than working two parent families;
- III. lone parents have only one person's earnings to draw on for child care expenses while most working mothers in two parent families have two earnings;
- IV. proportionally more lone parents work full time and thus spend more time working than other mothers with partners.

The number and ages of children and the hours of child care purchased are not directly affected by the number of parents present within the household unit. However, the FRS shows that:

- two parent families tend to have more children (Table 4.4 below);
- hours of childcare purchased reflect hours of work, and two parent families tend to have more full-time workers.

**Table 4.4: Numbers of children in lone parent and two parent households**

<i>Number of children</i>	<i>Lone parents</i>		<i>Two parent households</i>	
	Number	%	Number	%
1	1051	50	2215	36
2	663	31	2726	44
3	277	13	875	114
4 and over	118	6	320	5
<b>Total</b>	<b>2109</b>		<b>6140</b>	

Source: New analysis of *Family Resources Survey* data for 1996-97

Table 4.5 below contrasts the hours of child care used by lone parent and by two parent households.

**Table 4.5: Hours of child care used (per week) for working lone parents and working couples**

<i>Hours per week</i>	<i>All working lone parents</i>		<i>Two-parents - one or both working</i>		<i>Total</i>	
	Number	%	Number	%	Number	%
None	429	55	3989	72	4418	70
< 10	66	8	352	6	418	7
10-19	102	13	412	7	514	8
20-29	71	9	277	5	348	6
30+	110	14	480	9	590	9
<b>Base</b>	<b>778</b>		<b>5510</b>		<b>6288</b>	

Source: New analysis of *Family Resources Survey* data for 1996-97

The table shows how lone parents use child care more than in two-parent households where, unless both parents are working full-time, the partner not at work is possibly able to provide at least some, if not all, of the required care. The table also shows a contrast between the proportions of working lone parents and couples who require in excess of 30 hours child care a week. Comparing the table with Table 4.3 is interesting. Table 4.5 shows that 349 lone parents used child care while Table 4.3 shows that 167 (49 per cent) paid for that care. The comparable figures for couples are 1521 and 891 (59 per cent). Table 4.6 presents the data on child care used for full-time workers only, whose need for child care is presumably greatest.

**Table 4.6: Hours of child care used (per week) for working lone parents and couples, working full-time**

<i>Hours per week</i>	<i>Lone parents</i>		<i>Two-parents - both working full-time</i>		<i>Total</i>	
	Number	%	Number	%	Number	%
None	175	51	518	51	693	51
< 10	20	6	67	7	87	6
10-19	51	15	127	13	178	13
20-29	30	9	68	7	98	7
30+	67	20	236	23	303	22
<b>Base</b>	<b>343</b>		<b>1016</b>		<b>1359</b>	

Source: New analysis of *Family Resources Survey* data for 1996-97

This table shows, in contrast to Table 4.5 above, how the differences between lone parents and two parents households are negligible when both parents are working full-time. Nevertheless, it is still striking that around half of all households manage to sustain full-time working without the need for child care. Table 4.7 presents a similar analysis for part-time working lone parents and two parent households where there is some capacity for providing child care.

**Table 4.7: Hours of childcare used (per week) by part-time working lone parents, and couples who do not *both* work full-time**

<i>Hours per week</i>	<i>Lone parents</i>		<i>Two-parents - one FT, one PT</i>		<i>Two parents - one FT only</i>		<i>Two parents - one PT only</i>	
	Number	%	Number	%	Number	%	Number	%
None	224	57	1168	64	1301	94	242	86
< 10	45	11	207	11	22	2	7	2
10-19	49	12	182	10	26	2	16	6
20-29	39	10	149	8	12	1	3	1
30+	39	10	128	7	26	2	14	5
<b>Base</b>	<b>396</b>		<b>1834</b>		<b>1387</b>		<b>282</b>	

Source: New analysis of *FRS* data for 1996-97

The table shows that a higher proportion of lone parents working part-time are in need of child care than two parent households, with one in five requiring care of 20 hours or more. Few two-parent households where one parent is not working require paid child care although some still need large amounts of time (i.e. more than 30 hours)

**Table 4.8: Weekly childcare costs for working lone parents and working couples**

£ per week	<i>All working lone parents</i>		<i>Two-parents - one or both working</i>		<i>Total</i>	
	Number	%	Number	%	Number	%
Free/no child care required	626	80	4672	85	5298	84
<£10	21	3	66	1	87	1
£10-20	31	4	139	3	170	3
£20-30	30	4	150	3	180	3
£30-40	9	1	66	1	75	1
£40-50	16	2	86	2	102	2
£50+	45	6	331	6	376	6
<b>Base</b>	<b>778</b>		<b>5510</b>		<b>6288</b>	

Source: New analysis of *Family Resources Survey* data for 1996-97

Table 4.8 presents the overall pattern of childcare costs for all working parents. There are no significant differences between lone parent and two parent families. Both types of family are equally able to arrange child care at no cost (eight in ten of each group). The table also emphasises again the extent to which working families (whether headed by a lone parent or a couple) are able to arrange their child care at no cost (either within the household or through other informal arrangements).

In Table 4.9 the child care costs of lone parents and couples who work full-time are analysed.

**Table 4.9: Weekly childcare costs for lone parents and couples with children, *working full-time***

<i>£ per week</i>	<i>Lone parents</i>		<i>Two-parents - both working full-time</i>		<i>Total</i>	
	Number	%	Number	%	Number	%
Free	255	74	682	67	937	69
< £10	7	2	16	2	23	2
£10-20	14	4	42	4	56	4
£20-30	18	5	64	6	82	6
£30-40	6	2	26	3	32	2
£40-50	13	4	28	3	41	3
£50+	30	9	158	16	188	14
<b>Base</b>	<b>343</b>		<b>1016</b>		<b>1359</b>	

Source: New analysis of *Family Resources Survey* data for 1996-97

This table presents information for families where no parent is available during normal working hours to care for children. Marginally more lone parents are able to arrange child care at no cost. Families which have two full-time earners are more likely than lone parents to be paying relatively high weekly costs.

Table 4.10 presents a similar analysis for part-time working lone parents and two parent households.

**Table 4.10: Weekly childcare costs for part-time working lone parents, and couples who do not *both* work full-time**

£ per week	Lone parents		Two-parents - one FT, one PT		Two parents - one FT only		Total	
	Number	%	Number	%	Number	%	Number	%
Free	337	85	1525	83	1339	97	3201	88
< £10	14	4	35	2	5	-	54	1
£10-20	17	4	63	3	9	1	89	2
£20-30	12	3	57	3	6	-	75	2
£30-40	1	-	24	1	2	-	27	1
£40-50	3	1	35	2	6	-	44	1
£50+	12	3	95	5	20	1	127	4
Base	396		1834		1387		3617	

Source: New analysis of Family Resources Survey data for 1996-97

Table 4.10 shows the differences between different family types where either the lone parent or both parents are not working full-time. In particular there are differences between the groups when child care is free. Some observations could be made here:

- Lone parents can generally afford to take (presumably low paid) part-time work only if they can arrange free childcare.
- The presence of a full-time worker in two parent households enables higher childcare costs to be borne.

### Conclusion

This final section draws together and compares the information in this and the preceding chapter on the costs of child care.

The interaction between participation in the labour market and child care is clearly complex. For some people wanting to work child care presents them with one or more problems, including:

- availability; and
- affordability.

Other parents prefer to make the decision to be full-time carers for their children. Lone parents in particular tend to make this choice which is reflected in their relatively low labour market participation rates (see Table 4.3). When parents with children do work, however, the majority, whether working full or part-time, report that they do not use any form of child care at all. For parents working full-time this is presumably explained by the children concerned being able to look after themselves between school and the parent(s) returning from work, or by the working hours of the parent(s) allowing them to provide any necessary child care themselves. Parents working part-time are more likely to have some flexibility in coordinating working hours and child care.

For those parents who do need child care, the FRS data show that a significant number, around half, pay nothing. The overall result is that only 16 per cent of all working families pay something for child care (Table 4.8). Where a lone parent or both parents work full-time nearly 31 per cent pay something, but where someone is in part-time work or not working, only 12 per cent pay for child care (Tables 4.9 and 4.10 respectively).

The new analyses of the 1996-97 FRS data in this chapter confirm the picture of complexity emerging from the review of published research studies in the previous chapter. They have also allowed us to contribute to a greater understanding of the differences between the experiences of lone parent and two-parent households. For example, where the lone parent or both parents work full time, the need for child care is similar (Table 4.6). However, lone parents, on the whole, pay less for the care they purchase (Table 4.9). Part of the explanation for this result is likely to be the lower earning capacity of lone parents compared with households where both parents work, which allows the latter group to purchase more, or more expensive, care.

One separate conclusion that can be drawn from this chapter is that the size of the FRS allows analysis of child care costs (and other costs) at a much greater level of detail than other data sources. The new analyses presented here are only an indication of what is possible, and we return to the potential of the FRS in the final chapter.

## CHAPTER FIVE THE COMBINED AND THE NET COSTS OF WORKING

### **Introduction**

The published material on the costs of working, as the previous two chapters have shown, lends itself only to a consideration of separate types of costs. There is no literature on combined costs, taking into account the aggregate effect of travel costs, child care costs and the other, usually smaller, costs for people in employment. Even if such literature existed, it would still not present the whole picture. Many workers enjoy a range of fringe benefits which can offset the costs of going to work. In this chapter we wish to explore both these aspects of working costs. The section on combined costs draws largely on analyses of the FRS data set for 1996-97. The FES collects more data on a wider range of in-work costs (including eating at work and trade union subscriptions), but does not publish any relevant analysis. The potential of the FES is explored further in the final chapter. The section on offsetting costs draws on data from the project on Barriers to Moving Off Income Support (reported in Shaw et al., 1996) and on the earlier study of Erens and Hedges on incomes in and out of work.

### **The combined costs of working**

There is little published data about the combined costs of working. In studies which aim to identify people's reservation wages it is common for a figure to be stated which, at least implicitly, takes into account a range of expenses. These are usually not quoted precisely since they are speculations about the likely costs that would be incurred. Nevertheless, some authors argue that decisions about work are often based on precise calculations of the financial gains. For example, in the study of how low income families make ends meet by Kempson et al. (1994), people's calculations included the Family Credit they could expect, housing costs, child care costs, the direct costs of working, such as fares to work and clothing and the loss of welfare benefits such as free school meals and council tax benefit. They cite a respondent who had turned down a job because she had calculated she needed a net income of about £160 a week to cover the reduction in her Housing Benefit and to meet the costs of nursery fees and school dinners. Another lone mother had been persuaded to take voluntary redundancy from a job as a secretary because when she worked she had to find £40 a week for childminding, £33 a week rent, and £10 a week council tax. She was as well off on Income Support with a small amount of maintenance she received through the court. To avoid child care costs she intended to remain at home until her son went to school and then to work part

time. In general, Kempson et al. found that while lone parents frequently carried out these 'better off' calculations, unemployed men rarely did.

### Data from the Family Resources Survey

The FRS collects data on child care costs and on travel costs. For most people, these will be the major, largely unavoidable, costs of working. The published reports of the FRS do not present any analyses based on combined costs, but the DSS has carried out a number of new analyses of the 1996-97 data set for the purposes of this review.

Table 5.1 shows the combined weekly costs of child care and travel for lone parent and two-parent families by the working status of the parent(s).

**Table 5.1: Combined weekly costs of child care and travel to work for two-parent and lone parent families, by working status of parent(s)**

Weekly cost (£)	Lone parent families		Two parent families		
	Full-time %	Part-time %	Both full-time %	1 full-time + 1 part-time %	1 full-time only %
Free/no cost	20	40	9	16	33
Under £10	20	31	9	17	14
£10-20	16	10	10	13	14
£20-30	8	5	6	8	5
£30-40	10	5	10	10	10
£40-50	3	2	7	6	2
Over £50	22	7	49	31	21
Base	343	396	1016	1834	1387

Source: New analysis of Family Resources Survey data for 1996-97

Interpreting the information in Table 5.1 is problematic. Costs of working are both a reflection of, and a trade-off between, necessity and opportunity. The table shows that among two-parent families, and among lone parent families, those working full-time have the highest in-work costs. This phenomenon will be the result of the greater need for child care for those working full-time, and of the possibilities for meeting higher costs made possible by the higher incomes for full-time workers. The proportions of two-parent families with no costs where both parents do not work full-time will reflect the availability of free child care from

the part-time or non-working parent. Lone parents working part-time will have relatively low incomes from which to meet the combined costs of child care and travel. Hence, the majority (71 per cent) have either no, or low (i.e. under £10 a week), in-work costs.

Table 5.2 below combines the data in table 5.1 to show the differences in expenditure for working lone parent and two-parent families as a whole.

**Table 5.2: Combined weekly costs of child care and travel to work for working lone parent and two-parent families**

Weekly cost	All lone parent families		All two-parent families	
	No.	%	No.	%
Free/no cost	240	31	1335	24
Under £10	201	26	803	15
£10-20	102	13	665	12
£20-30	46	6	345	6
£30-40	60	8	515	9
£40-50	19	2	247	4
Over £50	110	14	1600	29
Base	778		5510	

Source: New analysis of Family Resources Survey data for 1996-97

Table 5.2 shows the main differences between lone parent and two-parent families. Over half of all lone parents have low or no costs (free or under £10 a week) compared with one in seven who pay more than £50 a week. In contrast, over a quarter of two-parent families pay more than £50 a week, while one in four pay nothing.

### **Offsetting the costs of working**

As mentioned at the beginning of this chapter, many workers enjoy a range of fringe benefits which can offset the costs of going to work and which reduce the net costs of working. The Barriers to Moving Off Income Support project collected information on the benefits provided for people in their last job before their spell on Income Support but is not reported in Shaw, Walker et al. (1996). Table 5.3 below summarises the responses for all respondents. Each question was asked separately, hence the base number of which percentages have been calculated is slightly different in each case.

**Table 5.3: Proportion of employees receiving fringe benefits in last job before signing on**

Type of fringe benefit	Number	%	Base
Free meals or luncheon vouchers	62	12	505
Subsidised meals or a canteen	65	13	505
Use of company car or van	29	6	504
Goods provided free or cheaply	72	14	503

Source: New analysis of Family Resources Survey data for 1996-97

Help with accommodation was provided for only one per cent of respondents. This was mainly in the form of free accommodation.

### **Conclusion**

As mentioned above, the costs of working reflect both necessity and opportunity. What people actually have to pay, or choose to pay, will depend on a number of factors such as the availability and affordability of child care and private and public transport, and their combined total as a proportion of income.

It is interesting to compare Tables 2.6, 4.8, and 5.2 above, all of which present data for lone parents and two-parent families weekly expenditure on travel, child care and combined costs respectively. In particular, comparing the proportions of households which pay the highest weekly amounts, i.e. over £50, suggests that most families do not pay both high travel and high child care costs, though it is possible that some families are in this position. Table 5.4 demonstrates this point.

**Table 5.4: Analysis of families paying high costs associated with being in work**

Type of cost	Percentage of families paying over £50 a week			
	All working lone parents		Two-parents - one or both working	
	Number	%	Number	%
Child care	45	6	331	6
Travel	60	8	1319	24
Combined costs	110	14	1600	29
Base	778		5510	

Source: New analysis of Family Resources Survey data for 1996-97

It is arguable whether fringe benefits should be regarded as directly offsetting the costs of working. For example, free or cheap goods should perhaps be regarded as nominal income which may well affect a person's decision whether or not to apply for or accept a job. But the extent to which a person perceives fringe benefits as an offset of costs cannot be assessed using analysis of the FRS or other continuous government surveys.

One purpose of this chapter has been to illustrate further the complexities of trying to measure the costs of being in work. The interaction of the various costs and benefits of working operates very differently at the level of the individual household. A further dimension to the complexity is added by the way in which these costs are separately perceived and experienced. This is the subject of the next chapter.

**CHAPTER SIX**  
**PERCEPTIONS OF THE COSTS OF WORKING**  
**COMPARED WITH ACTUAL EXPERIENCE**

**Introduction**

As important as the actual costs associated with going to work are people's perceptions of those costs. If a person contemplating working thinks that travel or child care costs are likely to be beyond their resources, they may not even begin the process of looking for work. As part of this review, therefore, we attempted to discover relevant pieces of research that could throw light on people's perceptions of in-work costs.

Two recent research projects have attempted to compare people's perceptions about the obstacles to starting work with the actual experiences of people who do find work later. The Barriers to Moving Off Income Support and the programme of work evaluating Jobseeker's Allowance included large surveys in which questions about barriers to work were included.

**Perceptions of barriers to work**

The Barriers survey was conducted with a sample of 1020 people (of whom 56 per cent were unemployed people and 23 per cent lone parents) who received Income Support for all or part of the period September 1992 to June 1994 (Shaw et al., 1996). The study was conducted before the introduction of Jobseekers Allowance and so the sample includes unemployed people who would now be JSA recipients. Respondents were asked about the factors which prevented them from leaving Income Support. Table 6.1 presents an analysis of the responses that are most related to the costs of work.

**Table 6.1: Factors preventing claimants leaving Income Support**

Factor preventing claimant leaving benefit	Percentage citing reason
Costs of child care	18
Paying Council Tax	32
Extra costs, such as travel and work clothes	21
Base	710

Source: Derived from Shaw, Walker et al. (1996), Table 9.2, p.126.

Similar questions were asked of the sample of nearly 5,000 unemployed people interviewed in 1995 as part of the Jobseeker's Allowance evaluation programme of research (Bottomley et al., 1997). Using a comparable list of factors to that used in the earlier Barriers project, respondents were asked which factors were a cause of concern about leaving benefit. Table 6.2 presents an analysis of the responses that are most related to the costs of work.

**Table 6.2: Concerns of unemployed people about leaving benefit**

Type of concern about leaving benefit	Percentage citing reason
Costs of child care	4
Paying Council Tax	40
Extra costs, such as travel	50
Base	4,430

Source: Derived from Table 6.4 of Bottomley et al., 1997

Tables 6.1 and 6.2 show contrasting findings which are difficult to interpret. However, it is clear that the different sample populations are likely to affect the results. The Barriers sample of Income Support claimants contained many more lone parents than the unemployed sample which was drawn from people claiming either Unemployment Benefit or Income Support for unemployed people. It is to be expected that child care costs would be mentioned as a worry for more of the former sample. It is interesting to note the relatively high proportions of people in each survey (32 per cent and 40 per cent) who said that having to pay their Council Tax was a concern to them. While on Income Support, claimants will also receive the maximum allowable award of Council Tax Benefit as a passported benefit. Many who find low paid jobs will continue to be eligible after assessment using the income test. The findings from the two surveys suggest, however, that many people are unaware they might still qualify or fear that they will have to meet large demands from their local authorities. The differences in the level of concern about meeting other costs of working (such as travel) are interesting. It is possible that the 'jobseekers' sample has more recent experience of the actual costs of travelling to work than recipients of Income Support who may therefore underestimate how much they will have to pay.

### **The experience of working**

For the purposes of this research, DSS supplied analyses of the Barriers data set that do not appear in the resultant publications from the project. Because the sample was drawn from people who received Income Support for all or part of the period September 1992 to June

1994, a proportion of the sample actually also had paid employment for some of that time. The sample included around 360 such people who had worked. Table 6.3 presents their responses to questions about perceived barriers to working and about their actual experiences when in work.

**Table 6.3: Barriers to leaving Income Support, and problems experienced as a result of leaving Income Support**

	No. of respondents	%	Base
Worries before leaving Income Support			
Arranging for someone to look after my children	11	9	125
Having to pay for things I got free on Income Support (e.g. prescriptions)	71	19	369
Problems as a result of leaving Income Support			
Extra travelling expenses	51	14	356
Paying for tools or clothes for work	19	5	356
Child care arrangements	10	8	124
Reasons for not leaving Income Support earlier			
Having to pay extra costs (for travel or work clothes)	26	7	354
Costs of child care	12	10	124

Source: Derived from Table 6.4 of Bottomley et al., 1997

The table suggests that more people experienced problems with travelling costs than the number who thought such costs would be a barrier to them moving off Income Support. By contrast, the proportions of respondents citing child care costs as a barrier to coming off benefit are similar to those who either worried about child care arrangements or had problems in practice.

Though not shown in the table, among those responding to the child care questions, lone parents consistently reported worries beforehand, actual problems, and costs as a barrier, more often than two parent households (though the numbers in each of these groups are relatively small, 36 and 89 respectively).

The 5,000 people interviewed as part of the Jobseeker's research project were interviewed again in the Summer of 1996, by which time 967 had returned to work. They were asked about the problems they had actually encountered. Table 6.4 presents their responses.

**Table 6.4: Problems encountered when moving off benefit**

Type of problem	Percentage citing reason
Costs of child care	1
Paying Council Tax or mortgage	11
Paying for extra travelling	13
Paying for tools or work clothes	7
Base	967

Source: Bottomley et al., 1997

Table 6.5 below presents the data in a different way and shows the proportion of respondents expressing concerns at the first interview who were in full-time work by the time of the second interview.

**Table 6.5: Proportions of people with concerns about costs who find work**

Type of concern about leaving benefit	Percentage in full-time work at time of second interview
Costs of child care	17
Paying Council Tax	17
Extra costs, such as travel	21

Source: Derived from Figure 6.10 of McKay et al. (1997).

McKay et al. interpret their results in the following way: ‘... how far did (the) concerns materialise? Taking those in work after being unemployed at wave 1.... the answer seems to be that fewer problems were experienced than expected.’ (p.148)

This interpretation is plausible but perhaps overstated. That one in five people who had concerned about extra costs actually found work later does not necessarily mean that problems were not experienced. Those in work may well have experienced problems and either overcame them or were managing them. It is possible that they also experienced problems they did not expect.

## **Conclusion**

The data available from the Barriers and the Jobseeker's projects do not allow a quantification of the costs of being in work but are useful in understanding the perceptions about potential costs that are held by people on the margins of the labour market. It is interesting to note the appearance of Council Tax as a potential concern for a significant minority of Income Support claimants. Unlike Housing Benefit there is no extended payment of Council Tax Benefit for people who lose their entitlement when starting work. As far as we know there is no research or survey data that quantifies the amount of Council Tax that people become liable to pay when starting work. However, depending on the time in the financial year when liability commences, the amount could run into hundreds of pounds.

Another relevant insight from earlier work by Brannen (1987, cited in Brown, 1989, Postscript: 15-16) is that child care fees usually come out of the married mother's wage, and if the cost is too high a proportion of these wages, it is not seen as worthwhile for the mother to work. This is an important finding in that it suggests that perceptions about the cost of child care may, in some cases, be relative to income from work rather than income from all sources in the household. If this is the case, then parents of children who deal with established services provided by the Employment Services, or for example recent initiatives under the New Deal programme, might need to be helped to take a wider view of the costs of child care in the context of all income rather than only wages.

The work of Brannen and the more recent findings from McKay et al. that some people's actual experience of the financial implications of starting work is not as bad as they expected beforehand suggest the need for (a) better and more authoritative advice for jobseekers when they are contemplating work, and (b) better publicity concerning the help that people can get with in-work costs from the benefit and employment systems.

## CHAPTER SEVEN

### SUMMARY, AND REVIEW OF FUTURE OPTIONS

#### **Introduction**

This report has reviewed the literature and research data on the what people actually pay as the costs of working. The aim of the review has been to contribute to policy debates about the obstacles that people face in leaving benefits and joining, and staying in, the labour market. In commissioning the work, the Department of Social Security stipulated that information was needed on the direct, 'hard' financial costs associated with going to work, i.e. actual cash outgoings. Other costs, such as the loss of means-tested social security benefits and the obligation to repay debts, were not included in the review's terms of reference. The rationale for this focused approach to costs was that to date there had been no systematic and comprehensive analysis of what people actually pay as the cost of working.

The Department also wanted to address a number of more specific research questions

- do lower-paid workers find that start-up and continuing costs of being in work erode the free money between net income in work (especially net pay) and out-of-work benefits, to the point where there is insufficient gap to create an incentive?
- are there differences in in-work costs for different family types (in particular, lone parents as opposed to families with children)?
- is there a difference between the perception of potential in-work costs and the reality? Does that perception affect movement into, or continuation in, work?

A final objective of the review was to assess the potential offered by existing data sources for providing ongoing information about the costs of working.

Chapters Two to Six have presented a review of recent literature and research on the costs of being in work up to March 1998. In this final chapter we firstly present a summary of the main findings from each of the review chapters, and secondly, return to the research questions above and discuss the extent to which we can provide answers from current sources. It will become clear that there are gaps in the data. Some of these gaps could be filled by further analysis of existing sources, but some would require new research. We consider the possibilities in the final part of the chapter, which assesses more generally the potential of current data sources for providing regular information about the costs of working.

## **Summary of findings**

### *Start-up, travel and other costs (Chapter Two)*

The amount that people pay in travel to work costs depends on a number of factors, some of which are outside their control, but some of which are a matter of choice or preference. The FRS in its present form does not enable us to untangle this complex picture. However, it does seem safe to suggest that ability to pay will play a significant part in explaining differences between, for example, lone parent and two-parent households. New analysis of the 1996-97 data set shows that lone parents pay less than two parent households, (for example, four in ten lone parents pay nothing to travel to work compared with a quarter of two parent households). The FRS also shows that nearly a third (30 per cent) of all working adults pay nothing in travel to work costs, of those that pay for travel 43 per cent pay £10 a week or less, and nearly half of those paying nothing still use a car.

Data on some of the other costs associated with working are thin. Expenditure on some items is available (for example, in the FES, which shows that in 1997 four in ten people pay for food at work at a weekly cost of £3.50) but other data cannot be linked definitively to work.

### *The costs of child care (Chapters Three and Four)*

The review of the published literature and the new analysis of the 1996-97 FRS data show clearly that there is great diversity in what people pay for child care for which there is no simple explanation. For example, 74 per cent of lone parents working full time paid nothing for child care, as did 67 per cent of two-parent families. In contrast, nine per cent of lone parents and 16 per cent of two-parent families paid over £50 a week. Where someone was working part-time in the household (and therefore in principle available to provide some child care) 88 per cent of all families paid nothing for their child care, while four per cent paid over £50.

The published FRS report for 1995-96 showed that the highest weekly amounts of child care (over £50) were paid by self-employed people and households where all adults are in full-time work, probably reflecting the greater number of hours of child care required by them. Child care costs across all economic groups increased during the school holidays compared with term time. For people who pay for child care, the majority paid less than ten per cent of their household income during both term time and school holidays. At the other end of the spectrum there were a number of households (though representing a small percentage) paying over half their incomes in child care costs. Again the self-employed and households where all adults were working full-time paid comparatively higher proportions of their incomes.

What people pay depends on the interaction of a number of factors such as the availability of appropriate child care, its cost, and its affordability. For some people, the availability of cheap, or free, child care will be essential for work to be financially viable for them. For others with higher incomes, there may be more choice about whether and what kind of child care to pay for. Studies consistently show that some forms of care, such as nannies are significantly more expensive than more communal forms of care such as nurseries and childminders.

Chapter Three showed how the estimates of the proportions of parents paying for child care is influenced by the sampling strategy adopted for individual studies. Research concentrating on low income and lone parent households report lower proportions of families paying for child care than studies based on more general samples (such as the General Household Survey). The explanation for this result is that working households with low disposable incomes are more likely to arrange free or low cost child care. The analysis of the FRS confirms this picture. Overall, only 16 per cent of all working families pay anything for child care, but around half need no care (presumably because their children are old enough to look after themselves or the parents' work patterns allow them to provide the necessary care). Where a lone parent or both parents work full-time nearly 31 per cent pay something, but where someone is in part-time work or not working, only 12 per cent pay for child care.

Comparisons between lone parent and two-parent households in the FRS show that where the lone parent or both parents work full time, the need for child care is similar. However, lone parents, on the whole, pay less for the care they purchase. Part of the explanation for this result is likely to be the lower earning capacity of lone parents compared with households where both parents work, which allows the latter group to purchase more, or more expensive, care.

#### *The combined and the net costs of working (Chapter Five)*

There is no literature on combined costs, taking into account the aggregate effect of travel costs, child care costs and the other, usually smaller, costs for people in employment. Chapter Five attempts to address this information gap by drawing largely on new analyses of the FRS data set for 1996-97.

The FRS shows that 40 per cent of lone parents working part-time pay neither child care nor travel costs, compared with 20 per cent of lone parents working full-time. In contrast, 22 per cent of full time working lone parents and seven per cent of part-timers pay over £50 a week

in combined costs. Fewer two-parent households where both adults work full-time pay nothing in combined costs (nine per cent) compared with nearly half (49 per cent) who pay over £50 a week.

Some workers enjoy fringe benefits which may contribute directly to offsetting the costs of working or provide some other form of subsidy (such as cheap goods) which increases the value of working. The large national surveys (including the FRS and the FES) do not collect data on such benefits. However, the DSS-sponsored research project into the barriers experienced by people moving off IS (which included unemployed people who would now be recipients of JSA) showed that, for example, 12 per cent of their sample received free meals or luncheon vouchers and six per cent had the use of a company car or van.

#### *Perceptions of the costs of working compared with actual experience (Chapter Six)*

As important as the actual costs associated with going to work are people's perceptions of those costs. If a person contemplating working thinks that travel or child care costs are likely to be beyond their resources, they may not even begin the process of looking for work. Two recent research studies addressed the question of people's perceptions of in-work costs. The sample populations for these studies were different (one included IS claimants before the introduction of JSA, and the second comprised unemployed people claiming benefit only). However, in both studies respondents were concerned about child care costs, travel, clothes and equipment, and paying for things they received free as benefit recipients (such as CTB and free prescriptions). Findings suggest that for some, though not all claimants, their worries were borne out in practice. Others though found that concerns about, for example, child care arrangements were less serious than they supposed.

The policy implications of these findings are (a) that better and more authoritative advice is needed for benefit recipients when they are contemplating work, and (b) that better publicity concerning the help that people can get with in-work costs from the benefit and employment systems could allay the concerns of some claimants.

#### **The research questions revisited**

As mentioned at the start of this chapter, the DSS research brief set out a series of specific questions to be addressed in the course of this review. These are now discussed in turn.

*Do lower-paid workers find that start-up and continuing costs of being in work erode the free money between net income in work (especially net pay) and out-of-work benefits, to the point where there is insufficient gap to create an incentive?*

There is ample research evidence that people undertake sometimes sophisticated calculations in assessing whether or not it is worth their while financially to attempt seeking work, or to take a particular job. However, the literature on work incentives strongly suggests that it is unrealistic to attempt to establish the level at which the costs of work in isolation become significant for low-paid workers in decisions about working. When asked in surveys or during qualitative interviews, most unemployed people are able to give some idea about the sort of wage they would be willing to work for. However, it must be recognised that the financial costs of working, of the type that have been reviewed in this report, are usually only part of a person's assessment of their reservation wage (or reservation income). In particular, the loss of social security payments and other benefits (such as prescriptions, or the availability of direct payments from IS) are frequently taken into account.

The conclusions of much research is that there is an incentive problem for many people whose aspirations, for whatever reason, are limited to low-paid employment. The poverty and unemployment traps created by the structure of the benefit system are still a reality for many unemployed people.

We have found no treatment in the literature of total in-work costs (either start-up or continuing) which would allow us to answer the research question as set out above. Nor does it seem possible to construct a single variable to measure total costs from the range of continuous surveys in their current form. As we have shown, the costs of child care have been the subject of the most research activity in the last ten years or so, including dedicated ad hoc studies and continuous surveys. Information of travel to work costs has also been generated in ad hoc surveys (but usually as part of wider studies - such as the Barriers project) and through continuous surveys.

There is no systematic evidence about the reasons why people leave employment which would allow us to assess the contribution that in-work costs make to such decisions. The most we know is that women who are partners of men who become unemployed often give up work also in order to maximise their income from the benefit system (SSAC, 1994).

The results of analyses of the separate costs of working show that low costs are often associated with people earning lower incomes, with part-time workers, and with lone parents

(compared with two-parent families). However, as we have noted in this report in relation to child care and travel costs, the interaction between hours of work, household income and in-work costs is not straightforward.

*Are there differences in in-work costs for different family types (in particular, lone parents as opposed to families with children)?*

Chapters Two to Four have demonstrated, using analyses of the 1996-97 FRS data set, the differences in the amounts paid for child care and travel by lone parent and two parent households. Understanding the differences, however, requires information about the constitution of the household (number of parents and children, and their ages), people's needs (for example, for someone to care for their children), their opportunities (for example, the availability of affordable child care), and their preferences (say, to work full or part-time, or not at all).

The analysis suggests that there are two distinct types of households: those that can arrange their circumstances such that they incur no child care or travel costs associated with work, and those that have to pay for care or travel. More lone parents, through choice or necessity, than two parent households fall into the former category. However, when we examine the payers separately more lone parents are using bigger proportions of their income to pay in-work costs.

The analysis of the FRS that has been possible so far does suggest, therefore, that the burden of in-work costs (expressed as a percentage of income) falls more heavily on lone parents compared with other family types.

*Is there a difference between the perception of potential in-work costs and the reality? Does that perception affect movement into, or continuation in, work?*

Two recent surveys have addressed these questions: the project on the Barriers to Moving off IS and the Jobseeker's Allowance evaluation work, both conducted by the Centre for Research in Social Policy (CRSP). In Chapter Six we have presented data from both published research reports and new analysis of the Barriers data supplied by the DSS. There is some evidence of a possible disparity between current claimants' worries about working and the experiences of people when they do move off benefit. However, the survey data do not allow us to distinguish worries based on some degree of knowledge about the costs of working and those based on an unfounded set of feelings or even biases and prejudices.

As part of the research project, we have also considered whether a distribution curve of in-work costs could be established, and at what point this levels off. The current published data do not provide sufficient information for the calculation of an overall measure of in-work costs which would allow the construction of a single distribution curve of in-work costs. In the final part of this final chapter we explore the potential offered by the FES for calculating an overall in-work cost which combines travel, child care, meals at work and subscriptions to staff associations. It is also possible that the information collected in the FRS could be used to construct separate distribution curves for child care and travel costs. However, the differences in costs between different family types and between different income groups suggest that a single distribution curve would mask the true impact of these in-work costs for some groups.

### **Use of data sources in the future**

In Chapter One, we identified two essentially different types of in-work costs, each of which has a different policy relevance:

- those associated with the transition from unemployment to employment (the costs of starting work);
- those costs associated with continued employment.

The policy interest in the first type of cost is in the extent to which actual or perceived start-up costs act as a disincentive to people who might be contemplating taking up employment. The interest in the continuing costs of working is in the extent to which they reduce people's income to the point that they choose to leave work (and become dependent on benefits). This dual interest essentially requires data to be gathered from two different samples of the labour force, the unemployed and newly-employed for start-up costs, and those in established employment for continuing costs. Samples of the general working population are unlikely to generate sufficient new starters for any useful analysis.

Our review of data sources suggests that no one source will provide comprehensive information on the monetary costs of working.

If regular information on the costs of working is considered worth pursuing, there are three approaches that we can consider. The first option is to enhance one of the existing surveys so that it could provide data on all the costs of working. The FRS and the FES appear to be the most useful options. The NTS is potentially useful for travel to work costs only. Other major surveys, such as the Labour Force Survey offer little potential, however. The second approach is to rely on a number of sources to provide information on the separate costs of working. However, some types of information are currently available from more than one source (child

care costs from the FES and FRS, for example). If this latter option is favoured, therefore, a decision needs to be taken about the most useful source for the options available. The third option is to initiate a new survey of in-work costs, though the costs of such an enterprise might be disproportionate and prohibitive.

Below we set out the potential offered by the major data sources for each of these approaches. Each source collects sufficient personal and socio-economic data to allow most of the analyses that are currently of interest to DSS. Analyses could be provided, for example, according to occupational status, socio-economic group, age, sex, household type, standard economic region, income group, and ethnicity.

#### *Family Expenditure Survey*

Although the published output from the FES is not in a form which is useful for this review, it is at present the only source which could provide information on other in-work costs as well as child care and transport.

The User Guide to the FES produced by the ESRC Data Archive lists the variables that can be used for analysis. The following appear to offer possibilities:

*Travel:* There are over ten variables connected with motor travel, including petrol, repairs, servicing, tax and insurance, spare parts, and membership of motoring organisations. These could be used to compute a weekly cost which would reflect the total cost of motoring rather than just the cost of fuel (which the National Transport Survey can only provide).

Other travel costs are also comprehensively covered:

- rail and tube fares;
- bus and coach fares;
- taxi fares;
- contribution to travel in friend's car.

Although the FES questionnaires and diaries do not ask respondents to specify the purpose of each expenditure on travel, the variables listed above appear to offer the opportunity of producing comprehensive data on travel to work costs.

*Child care:* Relevant variables available in the FES are:

- child care, friend or relative;
- child care, minder employed at home;

- child care, employed at home;
- day nursery or crèche run by local authority;
- private day nursery or crèche;
- state nursery school;
- private nursery school.

These variables demonstrate that the information collected on child care costs is extensive and could be used reliably in a variety of analyses.

*Tools:* Relevant variables available in the FES are:

- hire of tools;
- materials and tools (undefined);
- tools.

The FES is the only data source which collects this information, but it is not possible to distinguish equipment bought for work from that bought for personal uses.

*Eating at work:* Relevant variables available in the FES are:

- meals at work (fish and chips, and other);
- meals at work (sandwiches, cakes etc.);
- meals at work (non-alcoholic drinks).

The FES is the best source of data for these work-related costs.

*Subscriptions to Trades Unions and Staff associations:* One variable available in the FES is:

- subscriptions to Trades Unions, professional associations etc.

The FES is the only source of information on these costs.

For the FES to be used as a reliable and comprehensive data source on the costs of working, some modification of the existing questions would be needed to link expenditures with working. This might be relatively straightforward in the case of tools and equipment, for example, but not for travel to work costs. A single purchase of petrol clearly cannot be defined solely as a work cost. Two responses to this difficulty present themselves. First, the FES could include similar questions to those used in the NTS which, as mentioned earlier, could be used to calculate an average mileage cost. A further question, to record the number of miles travelled to work, would be needed to convert this cost to a weekly travel to work

cost. Secondly, data from the FES and NTS could be combined to derive a travel to work cost, which could then be added to the FES database as an imputed variable.

Like other large surveys, the FES in its current form would not allow the identification of people who had recently (however that might be defined) started work. Even if this were possible it is not known whether the survey, which typically covers 6,000 to 7,000 households would generate a sufficiently large sub-sample of new workers. The larger sample size used by the FRS (around 26,000) would clearly have a greater probability of generating the required number for reliable analysis.

### *Family Resources Survey*

The FRS is the largest survey that is relevant for studying in-work costs. As we have described earlier, it includes questions on the costs of child care and on travel costs. Our exploratory analyses of these data have shown that the data have the potential for exploring in some detail these aspects of the costs of working.

The FRS collects the following data about child care:

- whether a registered childminder or nursery is used;
- cost of child care per week for a child, in school holidays;
- cost of child care per week for a child, in term time;
- whether child is cared for by another person(s) while parent is working;
- hours of child care used per week, in school holidays;
- hours of child care used per week, in term time;
- details of other arrangements (e.g. payment in kind, exchange basis, no cost/payment);
- details of who looks after child (relative, friend/neighbour, childminder, nursery, crèche, other).

There is clearly potential for analysing in considerable detail parents' arrangements and payments for child care. As we have mentioned earlier, the size of the sample (around 26,000) makes it possible to explore child care costs for groups of the population that other, smaller surveys cannot. For example, the self-employed are present in the FRS in sufficient numbers for them to be analysed as a separate analytical group, as we showed in Chapter Four. One of the many possibilities for further analysis is the exploration of the costs faced by parents of pre-school age. The GHS analysis in Chapter Three demonstrated the high costs of child care for the under-5s, and the PRILIF programme of research has shown how child care costs decrease as children get older. The FRS could be used to investigate in greater depth, for example, by family type and income level, the costs incurred by parents with very young children.

On travel to work costs, the FRS collects the following information:

- amount of cost incurred, amount paid/received each week;
- amount of costs incurred (whether all, some or none);
- amount of cost incurred, amount paid per week to driver;
- amount of cost incurred, amount received per week from passengers;
- cost of fare (where no travel pass is owned);
- cost of pass (season, bus, or travelcard);
- cost of pass, expiry date of ticket;
- cost of pass, start of ticket;
- distance travelled to work;
- frequency of journey per week;
- mode of transport.

This comprehensive list of data items allows a comprehensive analysis of individual's and groups' travel arrangements and associated costs.

The potential of the FRS for exploring the combined amounts of child care and travel costs has been shown in Chapter Five. Such analyses should be useful to policy makers, but nevertheless still do not capture the full range of in-work costs that people incur. Child care and travel are probably the most important costs for the majority of people in work and contemplating starting work. However, the studies of perceptions of costs suggest that items such as clothing and equipment are also important for some people. The opportunity exists for adding these and other items of work-related expenditure to the FRS interview schedule. This would generate as comprehensive a view as possible of direct, cash expenditure associated with people's jobs.

Families with children clearly experience more costs than childless individuals and couples. This explains why so much policy interest is placed on these groups of the population. However, the FRS data set could also be used, for example, to investigate the in-work costs of households without children, and to investigate the validity and usefulness of constructing separate distribution curves for different costs, family types and income groups, and an overall distribution curve covering all groups and both types of cost (child care and travel).

#### *National Travel Survey*

The NTS is not suitable as a vehicle for collecting comprehensive information on the costs of working. However, it could be used to provide travel to work estimates. Each journey is

classified by its purpose. Commuting is one of the main classifications (and is the most common reason for people making a journey). The costs of tickets for journeys made by public transport are recorded. Questions are not asked about the cost of journeys made by car. Clearly such questions would be unrealistic. However, it would be possible to compute, for each journey made, the cost of petrol since information is collected on the amount of money spent on petrol, car mileage at the beginning and end of the seven-day period for which the travel diary is maintained, and distances travelled to work. It is possible also to add the cost of parking, which for some people may be substantial (no other national survey collects this information).

The NTS is likely to produce the most accurate estimates of the costs of travelling to work for those people who actually incur direct costs since information on each journey is recorded separately (unlike the FRS, for example). Currently available data covers the most common forms of transport to work (i.e. as the driver of a car or by public transport). However, the costs of people who travel as passengers but also contribute to petrol costs, or those who pay something towards the provision of works transport are not, at present, recorded in the survey.

#### *Labour Force Survey*

The only relevant questions at present in the LFS concern travel to work and trade union membership, but details of costs are not collected. No data is collected on the use and costs of child care.

The LFS does have the advantage of its large sample size (around 15,000), which could generate data, not only on the continuing costs of work, but could possibly generate sufficient numbers of recent starters for data of start-up costs. However, to pursue the costs of work would require a new, separate section in the questionnaire. If this were implemented, there is already information collected which would allow analyses by household type, income, occupational status, and industry, for example.

#### *A new survey of in-work costs*

It is not appropriate here to consider the cost-effectiveness of designing and implementing a new, one-off survey purely for the purposes of measuring the costs of being in work. At a time when consideration is being given within the DSS and other government departments to the amalgamation of large-scale surveys, it may seem unrealistic to suggest a new survey. Nevertheless, such an enterprise would be technically feasible, and a sample of established and new workers could possibly be drawn from the FRS or LFS.

## **Final comments**

It has not been possible to address all the Department's concerns in this review of published sources and work in progress, about the costs of being in work. To date, the subject has not been approached in a systematic and comprehensive manner. The picture that emerges from the uneven coverage of the separate elements of in-work costs (such as child care and travel) is generally one of great complexity, which defies easy simplification.

The key points to emerge from this review can be summarised as follows:

- The direct monetary costs of working (i.e. outgoings) are an important, but not the only, influence of people's decisions about whether to take up or stay in work.
- There is a wealth of information on the costs of child care, in the form of ad hoc studies, and large-scale surveys that collect continuous data (including the FES and FRS).
- Information on travel costs is collected in a variety of forms in a number of surveys (including the FES, FRS, LFS and the National Travel Survey). Little of these data appear in a form which contributes to an understanding of the costs of travelling to work.
- Data on other forms of in-work costs are very limited in comparison.
- In constructing an overall indicator of the costs of working, consideration should be given to whether gross or net costs are most appropriate, and account should be taken of the difference (where it can be established) between essentially voluntary costs and those which are necessary. There is a case for producing analyses using both gross and net earnings since people's perceptions of the costs affecting them may be based on either of these measures.
- Data on the costs of working are not useful in isolation for investigating people's perceptions or their processes of decision making.
- The review of the possibilities offered by existing data sources is encouraging. We recommend that further exploratory analysis is undertaken using the Family Expenditure Survey and particularly the Family Resources Survey, which appears to offer the greatest potential for the analysis of the costs of working.

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