



HM TREASURY

Post-legislative scrutiny: Child Benefit Act 2005



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Presented to Parliament by
the Economic Secretary for HM Treasury
by Command of Her Majesty

July 2011

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MEMORANDUM TO THE TREASURY SELECT COMMITTEE

Post-Legislative Assessment of the Child Benefit Act 2005

1. Introduction

1.1. This memorandum provides a preliminary assessment of the Child Benefit Act 2005 (c.6) (“the Act”) and has been prepared by Her Majesty’s Treasury for submission to the Treasury Select Committee (“the Committee”). It will be published as part of the post-legislative scrutiny process set out in the Command Paper *Post Legislative Scrutiny – The Government’s Approach* (Cm 7320, 2008).

2. Summary

2.1. The introduction of the measures in the Act coincided with an above-average increase in participation rates in education amongst 16 to 19 year olds, but a decrease in work based learning for 18 to 19 year olds.

2.2. However it is very difficult to draw any robust conclusions about what caused this rise in participation, and in particular about the contribution of the Act.

2.3. This is due to the nature and quality of the data available and the interaction between the policy, economic and demographic changes around this time that could have had an impact on participation rates.

3. Summary of the objectives of the Act

3.1. The Act received Royal Assent on 24 March 2005. Prior to its enactment, Child Benefit could be claimed in respect of all children under the age of 16 and those under the age of 19 who were in full-time non-advanced education.

3.2. In 2004, a review of financial support for young people was carried out which resulted in the White Paper, *Supporting Young People to Achieve: a new deal for skills*. The paper outlined a package of measures aimed at making all 19 year olds ready for work or higher education, which included some proposed changes to Child Benefit.

3.3. The Act, and regulations enabled by it, gave effect to those proposals by introducing two key reforms to the payment of Child Benefit to those aged 16 to 19 from the commencement date of 10 April 2006:

- The definition of a “qualifying young person” was introduced which included not only those in full-time non-advanced education but also those undertaking certain work based learning placements;
- A qualifying young person could continue to claim Child Benefit until their 20th birthday if they had started their course or training before reaching age 19.

3.4. By extending support that was previously only available to the families of young people who remained in full-time education, the Act aimed to encourage and

support more young people to remain in training or education up to a Level 3 Qualification by the age of 19.¹

3.5. This Act also aimed to bring the eligibility criteria for Child Benefit into line with the criteria already in place for continued Child Tax Credit support.

3.6. The changes enacted were projected to lead to £140 million extra spending on Child Benefit during the first year (2006-2007) and £170 million each year thereafter.

4. List of documents relating to the Act

4.1. Child Benefit Act 2005 and explanatory notes:

<http://www.legislation.gov.uk>

4.2. Child Benefit Bill Regulatory Impact Assessment:

http://www.hm-treasury.gov.uk/d/RIA_final_Lords_100205.pdf

4.3. Child Benefit Bill, draft indicative regulations:

http://www.hm-treasury.gov.uk/d/draft_child_benefit_regulations_10_january.pdf

5. Detailed background

5.1. Budget 2003 announced a review of financial support for 16 to 19 year olds, to report in Spring 2004 with the aim of examining:

- The financial incentives for young people to participate in education and training and the interaction between this support and any new minimum wage for 16 and 17 year olds;
- the financial support for young people and their parents or carers, including those who are living independently and those in very low paid employment; and
- how the system of financial incentives and support could be rationalised.

5.2. The review highlighted that despite the high number of highly skilled workers in the UK economy, the proportion of UK workers with low or no skills stood at 39 per cent. This compared poorly to other OECD countries (13 per cent in Germany, for example).

5.3. One of the root causes of this problem was identified as being the level of qualifications and training attained by young people in the UK by the age of 19; the participation rate of 16 to 19 year olds in further education or training was so low that the UK was ranked 27th out of 30 OECD countries.

5.4. The review cited evidence that continued participation in education and higher qualifications were key drivers of social inclusion for young people. In 2005, 34

¹ Level 3 qualifications include: A levels, Advanced Extension Awards, GCEs in applied subjects, International Baccalaureate, Key Skills level 3, NVQs at level 3, BTEC Diplomas, Certificates and Awards, BTEC Nationals, OCR Nationals

per cent of young people with no qualifications were not in education, employment or training (NEET) and 17 per cent of young people with Level 1 qualifications were NEET, compared to only 7 per cent of young people with Level 2 qualifications or above.²

- 5.5.** The review published its findings and recommendations in the form of the *Supporting Young People to Achieve: A new deal for skills* white paper. The vision of this report was to make all 19 year olds ready for work or Higher Education, and reverse the trends outlined in paragraphs 5.2 and 5.4.
- 5.6.** To achieve this aim, the report made a raft of policy recommendations around reforming the 14 to 19 curriculum and creating a more coherent offer of financial support to 16 to 19 year olds. Of these, many were legislated and came into force over the next two years. These proposed reforms included, among other recommendations:
- guaranteed minimum weekly payments for apprentices;
 - government-sponsored extension to the Modern Apprenticeships scheme;
 - roll out of the Employer Training Programmes;
 - Activity Agreement and Learning Agreement pilots; and
 - above-indexation rises to the Child Tax Credit and to Child Benefit.
- 5.7.** The review also drew attention to the complexities, anomalies and perverse incentives created by the existing financial support structure in the way in which the benefit rules applied in respect of some young people. The Jobseeker's Allowance rules on severe hardship and estrangement created considerable difficulties for those young people for whom it was not possible to return to live with their family. The age 19 cut-off in Child Benefit, which was based around a normative view of two academic years of A-Level study completed before a young person's 19th birthday, disadvantaged young people who, perhaps through childhood illness or disrupted family backgrounds, were unable to complete their education before they reached 19. Furthermore, paying Child Benefit and the Child Tax Credit only in respect of young people undertaking academic further education created a disincentive for those young people for whom vocational training offered a more fitting alternative that better suited their aptitudes and abilities. The review indicated the previous Government's intention to bring forward a package of measures to deal with these issues.
- 5.8.** The Act was introduced as a part of this policy response. The context is important, as it demonstrates that the Act was not introduced in isolation but as part of a wider agenda. As such, any analysis that can be carried out on success indicators for the Act should be tempered by the context that this reform was enacted at a time when an array of other reforms to the same policy area were coming into force. It is therefore very difficult to assess the impact of the Act in isolation.

² Level 2 qualifications are: GCSEs grades A*-C, BTEC First Diplomas and Certificates, OCR Nationals, Key Skills level 2, NVQs at level 2, Skills for Life. These statistics are taken from *Supporting young people to achieve: a new deal for skills*, published by HMT, DWP, DfES, 2004, p.8.

6. Changes made by the Act

- 6.1. Child Benefit is a non-contributory, non-income-related benefit payable where a person is treated as responsible for a child. It is not taxable. It can be claimed for all children up to the age of 16 at present, though as of January 2013 Child Benefit will be withdrawn from families containing a higher rate taxpayer.
- 6.2. Under the pre-existing legislation, Child Benefit could additionally be claimed in respect of young people under the age of 19 who were receiving full-time, non-advanced education by attendance at a recognised educational establishment or elsewhere provided that education was recognised by the Secretary of State or by the then Board of Inland Revenue. Such a young person was treated as a child for the purposes of the legislation.
- 6.3. The Act was a single purpose act which restructured the definition of 'child' in the existing legislation and extended entitlement to Child Benefit to a person responsible for a "qualifying young person".
- 6.4. The new definition of "child" was confined to those under the age of 16 and "qualifying young person" was defined as a person other than a child who met age and other criteria to be prescribed by regulations. Under subsequent regulations enabled by the Act, Child Benefit became payable to the following groups of young people in addition to those under the age of 19 in further education:
 - a. Unwaged trainees on government supported schemes. These schemes include:
 - for England: Entry to Employment (E2E) and Programme-led Apprenticeships (PLA);
 - for Wales: Skillbuild, Skillbuild+ and Foundation Modern Apprenticeships;
 - for Scotland: Get Ready for Work, Skillseekers and Modern Apprenticeships; and
 - for Northern Ireland - Training for success (professional and technical training).
 - b. 19 year olds up to their 20th birthday who began their course while under the age of 19.

7. Implementation, delegated legislation and subsequent amendment

- 7.1. The Child Benefit Act 2005 came into force for the purpose of making regulations on 24 March 2005, and for other purposes on 10 April 2006.
- 7.2. Amendments to the Social Security Contributions and Benefits Act 1992 (c.4) and the Social Security Contributions and Benefits (Northern Ireland) Act 1992 (c.7) enabled provisions to be made in the Child Benefit (General) Regulations S.I. 2006/223 which prescribed the age limits and conditions to be satisfied for a person to be treated as a "qualifying young person".
- 7.3. The Child Benefit (General) Regulations have been amended by :
 - The Child Benefit (General) (Amendment) Regulations 2007 S.I. 2007/2150

- The Child Benefit and Guardians Allowance (Miscellaneous Amendments) Regulations 2009 S.I. 2009/3268
- The Local Education Authorities and Children's Services Authorities (Integration of Functions) (Local and Subordinate Legislation) Order 2010 S.I. 2010/1172

8. How can the success of the Act against its aims and objectives be measured?

8.1. Measures available to analyse the impact of the Act

- Expenditure on Child Benefit, broken down by age group, from 2003 to 2009;
- Number of claimants of Child Benefit aged 16 to 19 and aged 19 only, 2003 to 2009;
- Participation rates in level 1 to 3 qualifications for 16 to 19 year olds and the academic year group who began the year aged 18; and
- Participation rates in work based learning for all 16 to 19 year olds and for the academic year group who began the year aged 18.

8.2. Issues with these measures

- 8.2.1.** It is important that the Committee recognises a general difficulty in assessing the impact of the Act in isolation. This is due to the complex interactions between the series of changes rolled out since 2005 following the *Supporting Young People to achieve: a new deal for skills* white paper (see paragraph 5.6 above).
- 8.2.2.** The figures relating to expenditure on Child Benefit are not a strong measure of the success of the Act because expenditure is influenced by a wide range of policy, economic and demographic factors.
- 8.2.3.** There has been no detailed breakdown of this expenditure by month and age of recipient since late 2007. The figures presented here are only accurate to the nearest £100 million, which constrains our ability to conduct detailed analysis.
- 8.2.4.** It is also difficult to assess changes to take up of eligible unwaged work based learning before and after this introduction of the provisions of the Act due to the nature of the data available for several reasons:
- The data on all work based learning includes learning routes that are waged or not eligible for support under the Act, rendering these figures a poor indicator for the success of the Act in encouraging take-up of the qualifying courses.
 - The trends shown within these figures do not accurately reflect take-up of work based learning as a whole. Courses that were previously counted as work based learning are now delivered in or by Further Education colleges, and hence redefined as contributing towards the figures for full-time education.

- There are no available figures to analyse take-up and change of participation over time for programme-led apprenticeships.
- The figures provided are from snapshot data, which may distort the true picture of participation rates. For example, over this period, the number of apprenticeships completed for all 16 to 19 year olds increased year on year between 2005-6 and 2008-9 from 58,500 to 67,300. This suggests that those who undertook apprenticeships completed them more quickly (over less than the course of one year), which the snapshot data does not capture. Taking this into account, some elements of work based learning have seen increased take-up since the Act came into force.
- The figures could also be affected by wider changes in the number of 16 to 19 year olds over time.

8.2.5. As such, while the work based learning indicator is the only measure available to assess the success of the Act, we can only draw limited conclusions from it.

8.3. Measure 1 - Changes in Child Benefit expenditure³

| Expenditure | Total spend (£billion) | Spend on 16 to 19 year olds (£billion) | Spend on 19 year olds (£billion) |
|-------------|------------------------|--|----------------------------------|
| 2003-4 | 9.4 | 1.3 | - |
| 2004-5 | 9.6 | 1.4 | - |
| 2005-6 | 9.8 | 1.4 | - |
| 2006-7 | 10.1 | 1.5 | 0.0 |
| 2007-8 | 10.7 | 1.7 | 0.1 |
| 2008-9 | 11.2 | 1.8 | 0.1 |
| 2009-10 | 12.0 | 1.9 | 0.1 |

8.3.1. Take-up among 19 year olds of continued support through Child Benefit increased between the first year of the Act (where the amount claimed was negligible) and the second and subsequent years of the Act.

8.3.2. However, it is difficult to assess what impact the introduction of the Act had on participation of 16 to 19 year olds or 19 year olds.

³ Source: Child Benefit annual accounts (August snapshot figures) and Child Benefit statistics (geographical analysis), August 2010, plus HMRC analysis.

8.4. Measure 2 – number of Child Benefit claimants by age 2003 to 2009⁴

| Year | 16 to 19 year olds claiming Child Benefit | Percentage rate of change (year on year) | 19 year olds claiming Child Benefit | Percentage rate of change (year on year) |
|------|---|--|-------------------------------------|--|
| 2003 | 1.6m | - | - | - |
| 2004 | 1.6m | 2.4 | - | - |
| 2005 | 1.7m | 1.9 | - | - |
| 2006 | 1.8m | 6.1 | 30,000 | - |
| 2007 | 1.8m | 4.6 | 60,000 | 101 |
| 2008 | 1.9m | 2.9 | 60,000 | -3 |
| 2009 | 2.0m | 3.8 | 70,000 | 27 |
| 2010 | 2.0m | 1.9 | 90,000 | 18 |

- 8.4.1.** The table above shows an increase in the number of claimants of Child Benefit across the 16 to 19 age group from the year that the Act came into force. The rate of change year on year was around 2 per cent, but in 2006 and 2007 this increased to 6.1 per cent and 4.6 per cent respectively. In addition to the Act, there are a number of reasons why number of claimants may have increased.
- 8.4.2.** There were wider changes in participation in education around this time. The proportion of 16 to 17 year olds in full-time education started rising from around 2005, having stayed broadly constant for the previous five years. Participation in education amongst 18 to 24 year olds has been on a general upward trend since the early 1990s.
- 8.4.3.** This increase could also be attributed to concurrent economic changes. Unemployment rose slightly around the mid-2000s, especially for young people.⁵ It is possible that poorer employment prospects encouraged more young people to participate in education around this time.
- 8.4.4.** Increases in the numbers of Child Benefit recipients and the rate of receipt may also be attributable to changes in the underlying numbers of young people in the relevant age cohort.

⁴ Source: Child Benefit statistics (geographical analysis), August 2010

⁵ Source: Labour Force Survey

8.5. Measure 3 - Participation rates in level 1 to 3 qualifications for 16 to 19 year olds and the academic year group who began the year aged 18⁶

| Year | 16 to 19 year olds in full-time L1-3 education | Percentage of total population | Percentage rate of change (year on year) | 18+ year group in full-time L1-3 education | Percentage of total population | Percentage rate of change (year on year) |
|------|--|--------------------------------|--|--|--------------------------------|--|
| 2003 | 915,600 | 47.3 | - | 51,700 | 15.6 | - |
| 2004 | 952,600 | 48.4 | 2.3 | 53,200 | 16.0 | 3.0 |
| 2005 | 990,000 | 49.7 | 2.7 | 54,600 | 16.1 | 0.5 |
| 2006 | 1,038,800 | 51.6 | 3.8 | 60,800 | 17.8 | 10.3 |
| 2007 | 1,058,500 | 52.5 | 1.7 | 60,500 | 18.1 | 1.7 |
| 2008 | 1,084,500 | 53.8 | 2.5 | 63,600 | 19.1 | 5.6 |

- 8.5.1.** The percentages of 16 to 19 year olds and the 18+ age group in level 1 – 3 education were growing year on year before the Act, and this trend continued afterwards. The rate of growth year on year was more consistent for the 16 to 19 age group overall than for the 18+ age group, where the rate of growth year on year was more erratic. This may be due to the relatively small size of the group represented by the 18+ age group, where slight fluctuations in numbers can make large impacts on the participation rate.
- 8.5.2.** Both the whole age group and the 18+ age group saw a noticeable increase in the rate of growth between 2005 and 2006, the period during which the Act came into force.
- 8.5.3.** This increase was more significant for the 18+ age group than for 16 to 19 year olds as a whole. This suggests that there was some limited correlation between the increased financial support offered through Child Benefit for 19-year-olds and members of that age-group moving into education, but we cannot establish a causal relationship for the reasons set out above.

⁶ All participation rates are taken from *DCSF: Participation in Education, Training and Employment by 16-18 Year Olds in England* data set. This can be found here: <http://www.education.gov.uk/rsgateway>.

8.6. Measure 4 - Participation rates in work based learning for all 16 to 19 year olds and the 18+ age group and change over time

| Year | 16 to 19 year olds in L1-3 work based learning | Percentage of total population | Percentage rate of change | 18+ age group in work based learning | Percentage of total population | Percentage rate of change |
|------|--|--------------------------------|---------------------------|--------------------------------------|--------------------------------|---------------------------|
| 2003 | 156,600 | 8.1 | - | 32,500 | 8.1 | - |
| 2004 | 152,100 | 7.7 | -4.9 | 31,800 | 7.8 | -3.1 |
| 2005 | 146,000 | 7.3 | -5.2 | 31,600 | 7.5 | -4.5 |
| 2006 | 135,700 | 6.7 | -8.2 | 30,900 | 7.0 | -6.5 |
| 2007 | 136,200 | 6.8 | +1.5 | 30,100 | 6.8 | -2.5 |
| 2008 | 131,700 | 6.5 | -4.4 | 30,100 | 6.8 | 0.3 |

- 8.6.1.** Participation rates in work based learning were in decline for both the whole age group and for the 18+ age group before and after the Act.
- 8.6.2.** Both rates of decline worsened in the year that Act came out, though this was less marked for the 18+ age group.
- 8.6.3.** This suggests that the extension of Child Benefit to 18 to 19 year olds and to those undertaking work based learning coincided with a decrease in the rates of participation in work based learning amongst this age group.
- 8.6.4.** However, as explained in 8.2.4 and 8.2.5 above, the robustness of the conclusions that one can draw from this data is limited.

9. Preliminary Assessment of the Act

- 9.1.** It is possible that the Act may have contributed to some limited degree to a higher than average increase in the year on year rate of participation in Level 1 to 3 education between 2005 and 2006 (when the Act came into force) for 16 to 19 year olds.
- 9.2.** The increased rate of participation was proportionally much higher for the Act's target age group who were 18 when they began their course, but would turn 19 whilst still studying.
- 9.3.** The impact of the Act on participation in work based learning is unclear. This is due to the nature of the data available and the difficulties in capturing the changes in participation rates of Entry to Employment and Programme-Led Apprenticeships.
- 9.4.** It is not possible to determine a direct causal relationship between the Act and the increased participation rates observed in this paper. This is particularly difficult in light of the series of other policy, economic and demographic changes which have

been introduced between 2006 and the present day and have had an impact on participation.

- 9.5.** Neither is it possible to determine whether other policy interventions, such as further investment in post-16 learning or targeting support on the most disadvantaged would have had a similar or increased effect.



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