

Child Benefit Bill Regulatory Impact Assessment

Introduction

1. The Child Benefit Bill is a single purpose Bill. It will restructure the existing definition of a 'child' for Child Benefit, aligning it with that in Child Tax Credit. It will do this by replicating the concept of a 'young person' aged 16-19 in addition to a 'child' aged under 16.
2. The Bill will provide powers to define the circumstances in which Child Benefit will be payable in respect of young persons who have attained age 16. In the short-term the changes will enable the implementation of the Government's intention to extend Child Benefit to unwaged trainees and to 19 year olds completing a course they started before the age of 19. The aim of the measure is to improve the financial support available to more vulnerable young people: those on the work-based route without a contract of employment and those who take longer to finish their courses. It will provide a more flexible approach, which will be able to respond readily to longer-term curriculum developments.
3. The Government has published draft regulations covering the extension of Child Benefit to unwaged trainees on listed programmes of Government supported training and those over 19 completing a course they started before the age of 19 to provide more detail about the purpose of the Bill.

Background to the Bill

4. The size and quality of the workforce are important drivers of economic performance and productivity growth. Although the UK has a large number of highly skilled workers, it falls behind its key competitors in terms of intermediate skills, with a higher proportion of UK workers having low skills: 39 per cent of the UK workforce has low skills compared with 13 per cent in Germany¹.
5. One factor explaining the UK's poor performance internationally is the continuing flow of young people with low levels of skill into the labour market. 25 per cent of young people in England reach age 19 without a level 2 qualification² - the level currently identified by the evidence as the minimum attainment requirement for participation in a flexible, global economy, equivalent to 5 GCSEs A*-C.
6. Despite step change increases in the numbers of young people participating in education after the age of 16, the UK still performs badly internationally, currently lying 27th out of 30 OECD countries for participation in education at age 17³. Increased participation is not an end-in-itself. In addition to the economic benefits of higher earnings potential through higher qualification levels, attainment of at least a level 2 qualification reduces the likelihood of social exclusion. For example, 34% of young people with no qualifications and 17% of those with qualifications below level

¹ OECD, Education at a Glance, 2002.

² Participation in Education, Training and Employment by 16-18 year olds in England 2002-2003, DfES <http://www.dfes.gov.uk/rsgateway/DB/SFR/s000469/index.shtml>

³ OECD, Education at a Glance, 2003.

2 are not in full-time education, training or employment compared with only 7% of those with qualifications at level 2.

Review of financial support for 16-19 year olds

7. The Chancellor announced a cross-government review of financial support for 16-19 year olds in Budget 2003, in response to the Low Pay Commission's recommendation for an investigation into a National Minimum Wage for 16-17 year olds. The review built on work established by the Department for Education and Skills and the Department of Work and Pensions in association with the Local Government Association in 2002. The aim of the review was to consider the existing provision and make recommendations to ensure that all young people have the support and incentives they need to participation in education and training. The review's report *Supporting young people to achieve* was published alongside Budget 2004⁴.

8. The report set out the Government's long-term aspiration that all young people reach the age of 19 ready for higher education or skilled employment. To deliver this aspiration, alongside 14-19 curriculum reforms in England emerging from the working group chaired by Mike Tomlinson, the Government set out its vision for a single, coherent financial support system for 16-19 year olds. The report set out that such a system should:

- support young people's post-16 choices and transitions;
- deliver decent minimum levels of income to young people and their families; and
- provide an accessible system of support.

9. The report also set out a range of measures as intermediate steps towards the long-term vision. At the centre of these measures was the announcement of the intention to extend family financial support to unwaged trainees and those completing a course after their nineteenth birthday. Other measures in the report cover a range of policies across devolved and reserved responsibilities.

Consultation

10. Views of key stakeholders, particularly voluntary and community sector organisations which work with vulnerable young people and Local Government, were sought and fed into the review process from its inception in 2002. Key concerns emerging from early consultation were the lack of family support available to unwaged trainees and the low level of support available through the Minimum Training Allowance in England, particularly its impact on the incentives of young people living independently to take up training and the distortion of choices for young people from low-income households. The views of employers were explicitly sought in the consultation launched at the Budget.

11. The intention to extend Child Benefit to unwaged trainees and over 19s finishing their course was widely welcomed.

⁴ www.hm-treasury.gov.uk/financialsupport

Purpose and intended effect

12. The Bill will replace the existing definition of a ‘child’ for Child Benefit purposes. With regard to young people who have attained age 16, the Bill substitutes a structure which enables the conditions that a young person must satisfy in order for Child Benefit to be payable for them to be prescribed in regulations. This will introduce a common approach to describing those young people for whom both Child Benefit and Child Tax Credit are payable. This structure will facilitate the delivery through secondary legislation of key elements of the short-term steps that emerged from the cross-government review of financial support for 16-19 year olds. Where a young person is still engaged in education section 142 of the Social Security and Contributions and Benefits Act 1992 currently restricts the definition of a ‘child’ to include generally only persons who are under 19 and receiving full-time education by attendance at a recognised educational establishment.

13. The Bill creates opportunities for incremental changes to the Child Benefit rules regarding 16-19 year olds over time. The Bill also enables the simplification of the current rules concerning payment of Child Benefit after a person ceases full-time education.

14. The Bill will have no impact on the payment of Child Benefit for children under age 16.

Overall Benefits, Risks, Transfers and Options

15. The benefits of the Bill are two fold. Firstly it enables implementation of reforms to the definition of a child to address two key anomalies raised in the context of the review of financial support for 16-19s. The changes to the Child Benefit regulations will enable the benefit to be paid to:

- **Unwaged trainees** – on Government supported schemes with the aim of removing distortions in the choice between full-time education and unwaged training and improve the levels of support available to the families of young people choosing the work-based route.
- **Young people over age 19 to finish courses started before age 19** – with the aim of ensuring that young people who start a course can finish it and gain the relevant qualification. This change will provide better value-for-money for Government investment and support those young people who suffer disruption to their learning.

16. Secondly it introduces a degree of flexibility to respond to curriculum changes in England in response to the 14-19 working group, chaired by Mike Tomlinson, equivalent changes made by the devolved administrations throughout the UK and reforms to Government supported training and apprenticeships.

Other costs/impacts

17. The Bill itself has no associated Exchequer cost. The extension of Child Benefit and other alignments as set out in the accompanying draft regulations will cost £170m per annum with a first year cost of £140m due to the transitional provisions. A breakdown of these costs is set out in partial RIA for the draft regulations, which is attached as an Annex.

18. There will be various implementation costs of this measure falling across Government. Staff working in the Child Benefit Office will need new guidance and training. These implementation costs are less than significant.

19. As part of the Review's recommendations, DfES and DWP have committed to writing new guidance for young people, parents and personal advisers by 2006, to fit with the proposed implementation timeframe for this legislation. This new guidance will need to take into account the revised eligibility conditions for Child Benefit.

20. These measures are likely to have a negligible impact on business. There are two sets of likely impacts on:

- Private sector pension providers which use the definition of a child as set out in Child Benefit legislation to determine when a mother ceases to have dependent children. After investigation the Government has not been able to find any examples of this practice by the private sector.
- Employers offering unwaged Government supported work-based learning may be impacted by operating in a new environment of financial incentives for young people. However, employers and their representative bodies have been consulted on the full package of reforms as part of the review of financial support for 16-19s, and no specific concerns have been raised on the proposed extension of Child Benefit to the families of unwaged trainees.

21. Devolved organisations with responsibility for securing the progression of trainees from unwaged to waged status may have to bring in new accountability arrangements to ensure there are no adverse impacts or unintended consequences of treating unwaged Government supported training more generously.

22. More generally the Inland Revenue enforce the National Minimum Wage for the Department of Trade and Industry and investigate reports of exploitation. These include cases where a young person is working for an employer, not receiving training, and therefore should be covered by the relevant National Minimum Wage.

Small business impact

23. The points made in paragraph 20 apply equally to small businesses, and the impact on them is therefore also likely to be negligible. The Small Business Service agree with this assessment of the impact.

Transfers and distributive impacts

24. Social Security benefits are transfer payments from the state to households or individuals. This measure will result in increased financial support for the two specified groups of families. The size of the gain will be determined by household characteristics. The proposed changes to the definition of a 'child' require wide-ranging consequential amendments across social security legislation to amend all references. These amendments ensure consistency of treatment of a 'child' and 'young person' in accessing passported benefits in particular.

Devolution

25. While tax and benefits are reserved matters, education and training are devolved responsibilities. Therefore there are complex interactions between the financial

support available through Child Benefit and the policies of the devolved administrations on financial support for learning. The education system in Scotland is different to that in the rest of the UK which has implication for financial support through the school leaving age. Representatives from the devolved administrations were members of the group reviewing financial support for 16-19 year olds.

Monitoring and evaluation

26. The aim of this Bill in part is to introduce a degree of flexibility to the circumstances in which a family can continue to receive Child Benefit for a 16-19 year old. In the context of the ambition for universal participation in education and training, there is a wide-ranging debate across government about how best to engage young people. Monitoring the impact of the extension of Child Benefit will inform that debate and inform the next steps towards the Government's long-term vision of a rationalised system of financial support for 16-19 year olds.

Human Rights

27. Lawyers have advised that the provisions of this policy comply with the European Convention on Human Rights.

Competition assessment

28. There will be negligible competition effects from the extension of Child Benefit. One possible positive effect is that training providers may find they are on a level playing field with FE colleges because young people's decisions are not being skewed by differentials in financial support between the two learning routes.

Environmental impacts

29. There are no environmental impacts of this policy.

Rural proofing

30. This policy will not have a particular impact on rural communities.

Contact point

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**Child Benefit Bill – secondary legislation
Partial Regulatory Impact Assessment**

31. This partial RIA provides additional details about the impact of the provisions that the Bill enables through the draft secondary legislation published on 10 January 2005.

32. The draft regulations maintain the position with regard to a qualifying young person in full-time education. They extend the eligibility of Child Benefit in two respects:

- To the families of unwaged trainees on named programmes of Government Supported Training.
- To the families of 19 year olds completing a course of full-time education or unwaged Government Supported Training started before their 19th birthday.

UNWAGED TRAINEES

33. At any one time there are around 80,000 young people aged 16-19 in unwaged Government supported training in the UK. Treated as independent adults, young trainees are guaranteed a weekly Minimum Training Allowance (MTA). The MTA ranges from £40 to £60 a week across the UK. In England, Wales and Northern Ireland the MTA is statutorily set at a minimum £40 a week. In Scotland the training allowance is set at £55 a week. The MTA is a wage and therefore counted as income for benefits.

34. This contrasts with the package of financial support available to young people in full-time non-advanced education, defined as 12 hours of structured learning in a recognised educational establishment. The families of young people in these circumstances are eligible to continue receiving Child Benefit and Child Tax Credit until that young person leaves non-advanced education or attains age 19.

Options**Option 1. Do nothing**

35. This option risks the further erosion of the status of the work-based learning route, particularly in the context of increased financial support available through Education Maintenance Allowances for young people in full-time education.

Option 2. Increase the Minimum Training Allowance (MTA)

36. Scotland and some local Learning and Skills Councils (LSC) in England have a higher level of MTA. The training allowance in Scotland is £55 and a third of LSC areas pay £45 a week or more. Increasing the level of the MTA in England, Wales and Northern Ireland would have addressed the low level of financial support available to unwaged trainees. Evidence submitted to the review by LSC, based on their research, suggested that the MTA would have to double to increase young people's choices at 16, retention and achievement. An increase in the MTA would not address the range of passported benefits a low-income family may lose as a result of a young person's decision to enter training rather than full-time education.

37. Increasing MTA in England would not involve legislation as the Secretary of State for Education has statutory power to make payments to trainees. Based on assumption of 80,000 unwaged trainees in the UK in 2007-8 increasing the MTA to £80 would have an Exchequer cost of approximately £125m a year. This figure takes into account that some Learning and Skills Council areas in England already have a higher MTA and the higher training allowance in Scotland by estimating the average increase at £30 a week per unwaged trainee.

Option 3. Extend the same package of financial support currently available to those in full-time education to those in unwaged training.

38. This option involves primary legislation as the definition of a ‘child’ which is consistent across tax credits and benefits, including passported benefits, is on the face of the Social Security and Contributions Act.

39. The review launched consultation on two possible options of how to define unwaged trainee in regulations. The two options were by programme or all unwaged trainees irrespective of programme. On balance and following discussion with a range of external stakeholders the Government proposes to extend the package of financial support available to young people in full-time education⁵ to those who do not have a contract of employment on Government Supported Training programmes. It will do this by naming the relevant programmes of Government Supported Training in the new regulations. The draft regulations name:

In England: ‘Entry to Employment’ or ‘Programme Led Pathways into Apprenticeships’;

In Wales: ‘Skillbuild’, ‘Foundation Modern Apprenticeships’ or ‘Modern Apprenticeships’;

In Scotland: ‘Get Ready For Work’, ‘Skillseekers’ or ‘Modern Apprenticeships’; and

In Northern Ireland: ‘Access’, ‘Jobskills Traineeships’ or ‘Modern Apprenticeships’.

40. Around 80,000 young people were in unwaged Government supported training aged 16-19 in the UK in September 2004. The Family Resources Survey shows that households with dependent unwaged trainees have income below average. Taking this into account, CTC and Child Benefit entitlements for families of unwaged trainees are modelled. Finally, a correction is made to take into account the 4%-10% of unwaged trainees aged 16-19 who live independently from their parents and would therefore be eligible for Income Support under the new arrangements. The Exchequer cost of extending the same package of support as for full-time education to unwaged trainees in the named programmes of Government supported training is £105m a year.

Extending Education Maintenance Allowance in England

41. As part of the package the Government announced the intention to replace the Minimum Training Allowance for unwaged trainees with the Education Maintenance Allowance (EMA).

⁵ Child Benefit, Child Tax Credit and Income Support

42. EMA were rolled out nationally in September 2004 to the first full cohort of 16 year olds entering full-time education. EMAs provide a regular weekly payment of up to £30 a week to those continuing in full-time education subject to attendance, with £100 bonuses for satisfactory progression against the individual learning agreement.

43. The advantages of replacing the MTA with EMA are:

- it introduces a single set of financial arrangements for non-employed learners in England, in effect creating a 'learning allowance';
- distortions between learning routes are fully removed as the same package of support is available for each; and
- EMA is a learning incentive and as such independent young people can receive it in addition to Income Support.

44. The distributional impact of the move from the MTA to the package of support including Child Benefit, Child Tax Credit, Income Support and EMA is complex. The extension of EMA to unwaged trainees will mean a transfer of weekly resources away from the young person toward the family, as EMA is paid at three levels of £30, £20 or £10 a week based on parental income, compared to from £40 a week MTA. The family will gain either the first or subsequent child rate of Child Benefit (£17.00 and £11.40 respectively in 2005-6) depending on the number of children in the family. The family will also gain Child Tax Credit, depending on household income. Child Tax Credit also depends on the characteristics of the family, for example the number of children. The maximum the family could gain from the extension of Child Tax Credit is £42.98 a week in 2005-06. Combined with Child Benefit and EMA this makes a maximum package of £89.98 a week. The EMA model includes £100 bonuses for progression, these are not a feature of the MTA.

45. AGE 19 CUT OFF

46. Child Benefit rules define a child around a normative view of post-16 participation as two academic years of A level study, completed before the young person's 19th birthday. The pattern of post-16 participation has changed along with the proportion of the cohort who remain in learning. Each year tens of thousands of young people reach the age of 19 while still engaged in full-time non-advanced education.

47. Parents' or carers' entitlement for Child Benefit and Child Tax Credit support ceases on the young person's 19th birthday, irrespective of whether they are still in full-time non-advanced education. Young people from low-income households may be forced to leave their course before achieving their qualification because of the pressure on the family finances of losing financial support. Currently around 80,000 families a year are cut off Child Benefit support for a young person (assuming 100 per cent compliance) because they reach the age of 19 while engaged in full-time education.

Options

Option 1. Do nothing

48. This option cuts across the Government's objectives to improve the flow of skills into the labour market. Indeed young people dropping out before achieving their qualification is a wasted investment for both Government and the young person.

Option 2. Discretionary grants

49. One option entailed the introduction of a discretionary grant scheme to support families until young people finish their course beyond the age of 19. This approach would be a targeted measure aimed at those families where a young person would otherwise be forced to drop out of their course due to financial hardship.

50. The grants approach was not pursued. Firstly it would introduce additional complexity in the system. Evidence presented to the review showed that vulnerable young people lacked understanding of their entitlement and adding an additional layer would create complexity and may have failed to meet the policy objective because of poor take up. Secondly there are many associated benefits that flow from receipt of Child Benefit (including Housing Benefit and Council Tax Benefit) which signals the presence of a dependent in the household. Any new discretionary payment would also need to compensate for these strands of financial support to achieve the policy objective.

Option 3. Pay Child Benefit up to the end of the academic year in which the young person attains age 19

51. This option has not been pursued. The proposal was to mirror the cut off at the end of compulsory education, with an extension of support until the end of the academic year. This option would extend Child Benefit to cover most circumstances when a young person turns 19 before they had completed the final year of their course of full-time education. However it provides a less flexible approach cutting off on an arbitrary date. Moreover, vocational training courses do not follow the pattern of an academic year. Consequently, this approach risks families with young people on unwaged training courses ceasing to receive Child Benefit before the person finishes their course.

Option 4. Where a person has started a course before age 19 entitlement to Child Benefit ceases when they attains age 20 or age 21

52. This option provides the best approach to achieve the policy objective of supporting young people to finish their courses irrespective of whether they are in full-time non-advanced education or unwaged training. There is currently limited data available on how long it takes young people to complete courses of non-advanced education, particularly for those in difficult or disadvantaged circumstances who have faced interruptions to the normal pattern of learning. Organisations that work with disadvantaged young people have so far been unable to provide anything more than anecdotal evidence on this issue. Consequently it is difficult to establish the optimum age cut off.

53. Choosing the higher cut off age risks stimulating a behavioural change encouraging 18 year olds to enter non-advanced learning, knowing that they will be supported up to age 21. This outcome would go beyond the current policy intention. Setting the cut-off initially at age 20 provides an opportunity to evaluate the effects of this change in practice and a basis for considering a further increase in the age limit in the future.

54. There are currently about 80,000 young people who stop receiving Child Benefit when they turn 19, which assuming full-compliance happens because they are still in non-advanced study. The figure is then adjusted to take account of:

- a.) The fifth of these students who are on short courses which will not last for the whole academic year after they turn 19.
- b.) Students who do not finish their course - DfES retention rates for further education show that around a fifth of students aged 16-18 do not finish their course.
- c.) The fact that some students starting a course before age 19 will continue training/education into the next academic year (in which they turn 20). The FRS shows that the number of students age 20 is around two thirds of the number of students age 19. However, not all of the students who are aged 20 will have started their course before their 19th birthday.

55. Finally, a correction is made for the year of introduction, when only a partial cohort would be affected by the introduction of extended support. The estimated Exchequer cost of the extension is £65mper annum (£45m in the first year).

56. The estimate of the cost of extension to age 21 uses a similar method. If there were no behavioural change associated with the extension to age 21 then we would expect the cost of this to be £75m (£55m in the first year). However the cost could be significantly higher if the provisions were to encourage young people to delay entering non-advanced education and training.

REGULATORY IMPACT ASSESSMENT

Child Benefit Bill

Statement of Ministerial Approval

I have read the regulatory impact assessment and I am satisfied that the benefits justify the costs.

Signed by the responsible Minister:

A handwritten signature in black ink, appearing to read "Dawn Primarolo". The signature is written in a cursive style with a horizontal line underneath.

Dawn Primarolo

Paymaster General

9 December 2004