



# Asset-Based Welfare and Child Poverty:

## Next steps for the Welsh Assembly

Tony Dolphin and Dr Rajiv Prabhakar

April 2010

© ippr 2010

## About ippr

The Institute for Public Policy Research (ippr) is the UK's leading progressive think tank, producing cutting-edge research and innovative policy ideas for a just, democratic and sustainable world.

Since 1988, we have been at the forefront of progressive debate and policymaking in the UK. Through our independent research and analysis we define new agendas for change and provide practical solutions to challenges across the full range of public policy issues.

With offices in both London and Newcastle, we ensure our outlook is as broad-based as possible, while our Global Change programme extends our partnerships and influence beyond the UK, giving us a truly world-class reputation for high quality research.

**ippr**, 30-32 Southampton Street, London WC2E 7RA. Tel: +44 (0)20 7470 6100 E: [info@ippr.org](mailto:info@ippr.org)  
[www.ippr.org](http://www.ippr.org). Registered Charity No. 800065

This paper was first published in April 2010. © ippr 2010

## About the authors

**Tony Dolphin** is senior economist at ippr. He is currently researching the future of the UK labour market, savings behaviour among low-income families and the implications of deficit reduction for the tax-benefit system.

**Dr Rajiv Prabhakar** is a lecturer at The Open University and an ESRC fellow at the London School of Economics. He is author of *The Assets Agenda* (Palgrave-Macmillan 2008) and is conducting an ESRC knowledge transfer grant on asset-based welfare.

## Acknowledgement

The research for this brief was funded by a grant provided to Rajiv Prabhakar by the Economic and Social Research Council on 'The Assets Agenda: transferring knowledge on assets, financial education and wealth inequality' (RES – 189 – 25- 0002). We are very grateful for this financial support.

## Executive summary

- The Welsh Assembly has made asset-based welfare a part of its child poverty agenda.
- One of its child poverty indicators focuses on the opening of Child Trust Funds (CTFs).
- The Welsh Assembly has also established the Child Trust Fund Cymru and emphasises the provision of CTFs through credit unions.
- The CTF Cymru means that children in Wales qualify for an extra top-up from the Welsh government into their CTFs.
- This strategy is aimed at reducing the chances of poor children becoming poor adults, rather than any immediate easing of rates of child poverty.
- As a result of the fall-out from the recession, this asset-based welfare agenda faces a challenge from the policy community, so it is important to restate its value.
- Two ways in which assets are important are identified here: as a cushion to help people cope with shocks and as a long-term strategy to stop poor children becoming poor adults.
- Nonetheless, the Conservative Party has said that it will restrict CTFs to the poorest one-third of families and the Liberal Democrats propose to abolish them completely.
- If CTFs are restricted to the poorest one-third of families at a national level, the Welsh Assembly will have little choice but to follow suit with CTF Cymru.
- If it does not cut the funds allocated to the CTF Cymru programme, the Welsh Assembly could use this opportunity to strengthen its long-term asset-based attack on poverty.
- Specific measures should be designed to increase parental opening of Child Trust Funds, to ensure a high rate of uptake for CTF Cymru and to encourage more parents with low incomes to place additional funds in their children's CTFs.

## Introduction

The Welsh Assembly Government has made asset-based welfare a key part of its long-term efforts to tackle child poverty (Drakeford 2007). It has established a ‘Child Trust Fund Cymru’ that will place a Welsh premium in the Child Trust Funds (CTFs) of all eligible children in Wales. At a speech announcing the extra payment, Deputy First Minister Ieuan Wyn Jones said:

*This top-up is another example of where we are delivering **Welsh solutions to the issues we face in Wales**. Tackling child poverty and financial exclusion remain among our key commitments for this term.*  
(Reported in Welsh Assembly Government, 2009a, bold in the original)

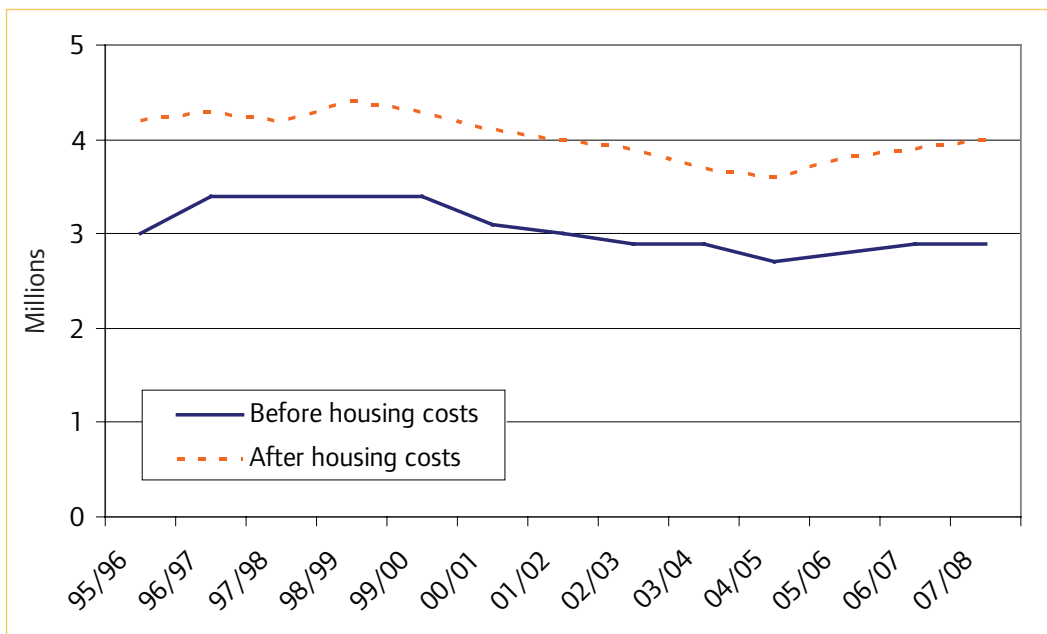
In this paper we examine the Welsh Assembly Government’s initiative in the context of developments in child poverty and asset-based welfare policies. We restate the case for an asset-based approach to welfare and consider what the Welsh Assembly Government might want to do next.

## Child poverty

In the UK, the most commonly used definition of living in relative income poverty is living in a household where the income is below 60 per cent of the median UK income. This can be calculated before or after housing costs, though the national government prefers the before housing costs methodology. The latest official figures show there were just under 3 million children in the UK living in poverty – calculated before housing costs – in 2007/8. This number had changed very little over the preceding five years.

**Figure 1:**  
**Children living in poverty in the UK (millions)**

Source:  
Department for Work and Pensions 2009



The UK Government made a pledge in 1999 to halve child poverty, measured before housing costs, by 2010 and to eradicate it altogether by 2020. It has recently acknowledged that it will fail to achieve the interim target, which required child poverty to have fallen to 1.7 million in 2010/11. The Government’s latest estimate is that there will be around 2.3 million children in relative poverty in 2010/11 (HM Treasury 2010a). The headline measure of child poverty – relative income poverty before housing costs – was complemented by two further indicators covering absolute poverty and material deprivation combined with relative low income.

Analysis undertaken by Donald Hirsch for the Joseph Rowntree Foundation and the Institute for Fiscal Studies suggests the Government would have to spend about an additional £4 billion on benefits and tax credits in order to cut child poverty to 1.7 million in 2010 (Hirsch 2009). In the present fiscal climate, that much money has not been made available. Since Hirsch's analysis was published, the Chancellor has announced a series of measures that will help reduce child poverty by around 100,000, but will still leave the Government some way short of its target. These measures include:

- A £20 increase in Child Tax Credit from April 2010 (in the 2009 Budget)
- The extension of free school meals to half a million primary school children of low-income working families (in the 2009 Pre-Budget Report)
- An increase of £4 a week in Child Tax Credit for the parents of one and two year olds from April 2012 (in the 2010 Budget).

At the time of the 2010 Budget, the Government set out a revised plan for ending child poverty in the UK (HM Treasury 2010a). This expanded the number of targets to four:

1. To reduce the proportion of children who live in families with income below 60 per cent of the median to less than 10 per cent
2. To reduce the proportion of children who live in material deprivation and have a low income to less than 5 per cent
3. To reduce the proportion of children that experience long periods of poverty [a more specific target is promised later]
4. To reduce the proportion of children who live in absolute low income to less than 5 per cent.

These measures were enshrined in the Child Poverty Act 2010, which commits future governments to the goal of eradicating child poverty by 2020. The first target is a watered down – and arguably insufficiently ambitious – version of the old pledge to eradicate relative poverty (though it was probably never envisaged that it could actually be reduced to zero). The others are said to complement the relative poverty target.

Despite the additional targets, the Government's approach to tackling child poverty has not altered. Indeed, although unemployment has increased over the last two years, it seems to have increased its emphasis on getting people into work as the best means of lifting families out of poverty. Promoting parental employment and skills are at the heart of its strategy. This is to be complemented by action on '... financial support, education and childcare, health and family support and housing and neighbourhoods' (HM Treasury 2010a).

Child poverty is a bigger problem in Wales than in the UK as a whole. In every year since 1994/95, the incidence of child poverty in Wales has been higher than in the UK. In the period from 2005/6 to 2007/8, on the before housing costs definition, 27 per cent of children were living in poverty in Wales, equivalent to around 160,000 children. After housing costs, 32 per cent of children, or around 190,000, were living in poverty (Winckler 2009). This is slightly above the UK average of 30 per cent.

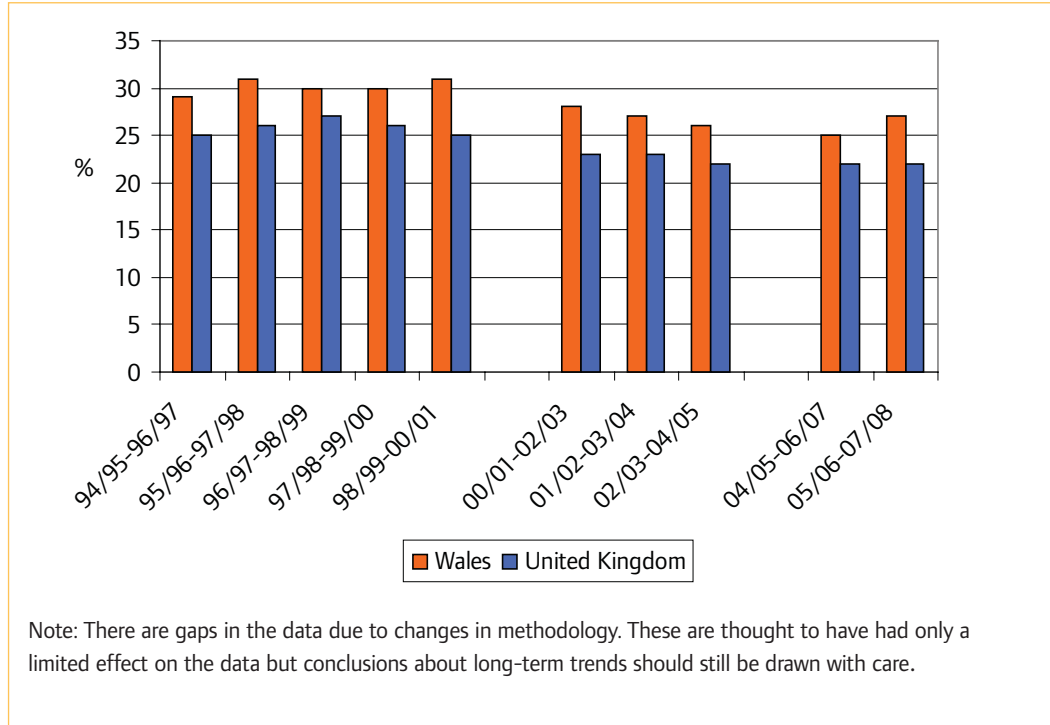
Regional data show that there are several other parts of the UK where child poverty, after housing costs, is a bigger problem than in Wales, but that only the North East of England has a bigger problem before housing costs.

Over the last decade, some parts of the UK where child poverty was highest in 1999/2000 have made the most progress in tackling it. In Scotland child poverty fell by 25 per cent and in Northern Ireland by 17 per cent between 1999/2000 and 2007/8. In contrast, child poverty in Wales fell by just 7 per cent over the same period, despite the fact that all three nations began the decade with roughly the same level of child poverty (Ben-Galim *et al* 2010).

This situation helps explain why the Welsh Assembly Government has a particular focus on alleviating child poverty and why it has adopted such a large set of child poverty indicators (numbering 31) that it uses to measure progress on reducing child poverty in Wales.

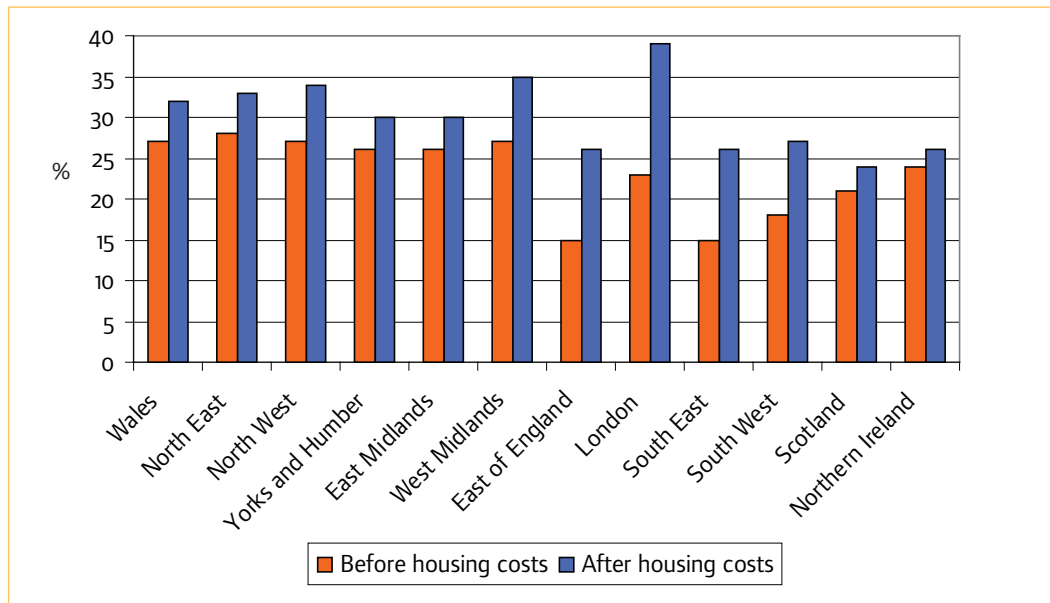
**Figure 2:**  
**Proportion of children living in poverty in Wales and the UK (before housing costs, per cent)**

Source:  
 Department for Work and Pensions 2009



**Figure 3:**  
**Proportion of children living in poverty across the UK (per cent)**

Source:  
 Department for Work and Pensions 2009



## The Child Trust Fund

The Child Trust Fund (CTF) provides all children born after September 2002 and living in the UK with a £250 or a £500 initial endowment from the Government. The higher grant, also known as the additional payment award, is for children from poorer backgrounds. Over the period from inception to April 2008, 3,959,000 accounts were opened in the UK and 33 per cent of all accounts received the additional payment award. In Wales over the same period, 179,000 accounts were opened and 38 per cent were endowed with the higher amount (HM Revenue and Customs 2009c). The endowments are placed in special accounts that can be accessed only when the child reaches his or her eighteenth birthday and additional amounts – up to £1,200 each year – can be saved into these accounts by family and friends. When children reach seven years old, the Government places an extra £250 or £500 top-up into their trust funds (HM Treasury 2003, 2006).

There are three main types of CTF account<sup>1</sup>:

1. Cash accounts are interest-bearing savings accounts
2. Shareholder accounts invest mainly on the stock market
3. Stakeholder accounts involve a mix of savings and investment on the stock market.

If parents do not open a CTF on their child's behalf during their first year, the Government will, by default, open a stakeholder account for them, choosing from a rotating list of approved providers. Around three-quarters of CTFs are invested in stakeholder accounts. The distribution of CTFs by type of account is almost identical in Wales to that in the rest of the country.

**Table 1: Distribution of Child Trust Funds by type of account, all funds opened to April 2008 (per cent)**

Type of account	Wales	United Kingdom
Stakeholder – parent opened	52	52
Stakeholder – government opened	24	23
Non-stakeholder – cash only	17	18
Non-stakeholder – non-cash investments	7	7

Source: HM Revenue and Customs 2009c

In 2008/9, across the UK, 24 per cent of CTFs received extra contributions from family and friends, with the average payment being £289. In Wales, 22 per cent of CTFs received extra contributions and the average payment was £247.

Since the introduction of the CTF around a quarter of children have not had a CTF opened for them by a parent, leaving the Government to open them a stakeholder account. Official statistics reveal that opening rates tend to be lower in poorer Westminster parliamentary constituencies, though the figures are not broken down by social class or income. However, we do know that between September 2002 and April 2008 33 per cent of children that received an additional payment award (that is, those from the lowest income families) had to have an account opened for them by the Government, compared with 18 per cent of children not receiving an additional award (HM Revenue and Customs 2009c). A reasonable working assumption, therefore, is that lower opening rates in poorer areas reflect lower opening rates among those on low incomes.

1. There are also accounts that comply with Shari'a law for Muslim citizens.

One of the Welsh Assembly Government's child poverty indicators concerns the opening of CTFs by parents. Indicator 25 states that a milestone for 2010 is to:

*Increase the investment rate of Child Trust Fund Vouchers, particularly amongst low income families. (Welsh Assembly Government 2009b)*

Currently, the parental opening rate across Wales varies from 65.3 per cent in Rhondda to 81.3 per cent in Montgomeryshire.

### **Child Trust Fund Cymru**

As part of the 'One Wales' agenda, the Welsh Assembly Government has introduced a Welsh premium to the Child Trust Fund: the Child Trust Fund Cymru (CTF Cymru). An extra £50 will be paid into the CTF accounts of all eligible children, with a further £50 for those living in low income families. In 2009/10 the Assembly Government targeted children born between 1 September 2002 and 31 August 2004. Funding is also available in 2010/11 for children born between 1 September 2004 and 31 August 2005 (Welsh Assembly Government 2010). The scheme works on a voluntary basis. Parents are given a claim form through their child's school. This has to be completed and submitted to the Assembly government for processing. The Assembly government then arranges for the additional payment to be paid into the child's CTF account. As yet, there are no data on take-up rates.

A related part of the Welsh Assembly Government's child poverty strategy stresses the delivery of CTFs in Wales through credit unions. This is a distinctive feature of the Assembly government's approach. The hope is that the experience of using a credit union will encourage those with little or no experience of financial institutions to acquire and build up assets (Welsh Assembly Government 2007 and Drakeford and Gregory 2007). The Assembly government set a target of increasing the number of credit unions being able to offer CTF accounts from three to 18 by June 2009, which represents 60 per cent of credit unions in Wales. The Assembly government provided £350,000 to help achieve this target, which was accomplished by May 2009. Welsh credit unions now comprise 25 per cent of all CTF providers in the UK (Welsh Assembly Government 2009c).

### **The effects of the recession**

The recession increases the challenge of reducing child poverty, though the precise impact of the recession on poverty, as officially measured, is not immediately apparent. Poverty is more prevalent in families where no one has a full-time job, so it might seem obvious that poverty, like unemployment, will increase in a recession. In absolute terms that is true. However, because the key measure of poverty – relative poverty – is defined by reference to the median income, if the median income falls while the income levels of those at the bottom of the income scale are maintained through the tax and benefit system, the level of relative child poverty might actually fall (Brewer *et al* 2009). Of course, if the headline rate of child poverty does fall in a recession, the composition of those in child poverty might alter – with proportionately more being found in families without work. Addressing this will raise the cost of ending child poverty.

In Wales, there have been discussions about how the recession will affect the overall direction of the Welsh child poverty strategy. In April 2008 a Child Poverty Expert Group was convened to provide advice to the Assembly on its strategy to end child poverty<sup>2</sup>. Work has traditionally been seen as the main route out of poverty but members of the Expert Group wrote a letter on 30 October 2008 to the Minister for Social Justice and Local Government making it clear that the recession made this a less viable option. They added that, in the current economic conjuncture, it is important to ensure people have access to adequate

2. Initial members of this group were Huw Lewis, Assembly Member; Dr Samantha Clutton, Barnardo's Cymru; Ms Anne Crowley, Save the Children (Wales); Professor David Gordon, University of Bristol; Dr Peter Kenway, New Policy Institute; and Caroline Kelham, Child Poverty Unit. (Welsh Assembly Government 2008b)



income and this implies protecting and perhaps boosting income benefits. The Expert Group acknowledged that the Government faces pressures to cut rather than increase public spending, but argued that extra spending would be needed if the promise to eradicate child poverty by 2020 is to be achieved (Lewis 2008).

The financial collapse and recession – and the huge increase in the Government’s fiscal deficit associated with them – could also affect the Welsh Assembly Government’s use of asset-based welfare to alleviate child poverty, if one consequence is a change to national provision of the CTF. Although the extent to which the Government’s fiscal deficit is a problem at an economic level has been questioned in some quarters (see, for example, Arestis and Sawyer 2009), a strong consensus has now emerged that it will have to be reduced significantly over the life of the next Parliament, and perhaps the one after that. The latest projections suggest the deficit in 2009/10 will be £167 billion, or almost 12 per cent of GDP (HM Treasury 2010b). In part, the deficit will be reduced as a result of economic recovery, which will boost tax revenues and lead to lower spending on welfare payments. But discretionary tax increases and cuts in public spending will also be needed, perhaps of the order of £70 to £80 billion, to eliminate the structural current budget deficit (that is, that part of the deficit that will not go away as a result of the economic recovery).

### Arguments against Child Trust Funds

As a result, politicians are searching for spending items that can be cut and any policy area that is controversial is vulnerable to cuts. The CTF is one such area. The Liberal Democrats have had a long-standing policy of abolishing the CTF and diverting the funds to be spent on early-years education and support. This policy was reiterated by their Shadow Chancellor Vince Cable in his speech to the Liberal Democrats 2010 Spring Conference (Cable 2010). Meanwhile, the Conservative Party has proposed changing CTFs from a universal scheme to one targeted at the poorest third of families and at families with disabled children (Conservative Party 2010). George Osborne said in his speech to the 2009 Conservative Party Conference:

*... quite frankly Child Trust Funds have not been as successful as many like myself hoped. (Osborne 2009)*

It is not clear how success is being defined in this context. The Liberal Democrats have highlighted low parental opening rates among low-income families as a weakness of CTFs and the Conservatives’ shadow families spokesperson, David Willetts, has said that lower opening rates of CTFs in poorer areas indicate the policy is failing poorer communities (reported in Williams 2010). It is not, though, at all clear how the Conservative Party policy of restricting CTFs to low income families would lead to an increase in opening rates among those families.

This focus on parental opening rates suggests critics of CTFs believe having a parent open an account for their child is the main benefit of the scheme. This is not self-evident. The scheme’s aim is to ensure that every child has some savings when they reach their 18th birthday and to encourage parents (and friends) to top up these savings. While parents who do not open a CTF for their children might be less likely to make additional investments into their accounts, the failure to open the account is not itself a problem because the Government ensures that accounts are opened for every child, whether or not their parents take the initiative. It can also be argued that a 76 per cent opening rate for CTFs should be seen as a success, given people’s general tendency to inertia when it comes to financial matters.

But it is not just the politicians who make the case against CTFs. Concerns about the role that assets can play in tackling child poverty have been raised right from the introduction of the Funds. One particular worry is that low income families are not in a position to make additional savings into the CTF. A second concern is that focusing on assets will divert policymakers from the more urgent task of boosting income levels for the poor. The Child

Poverty Action Group says that it has:

*... significant concerns about the degree to which the Child Trust Fund (CTF) can assist in the eradication of child poverty when it offers no increases to the incomes of poor families whilst their children are actually growing up. We fear that the CTF may prove to be an unhelpful distraction from consideration of income adequacy. (Child Poverty Action Group 2005: 3)*

## Why assets are important

These concerns can be countered by general arguments in favour of a role for assets in welfare policy, and in tackling child poverty in particular, and by specific arguments in defence of the Child Trust Fund.

One way that a stock of assets, such as savings, may help people is by providing a financial cushion in times of need. Lister (2006) provides an example of this in her analysis of the 'vulnerability context' of poverty. This refers to those factors in the background environment that make a person prone or vulnerable to dips in income, factors such as the breakdown of a washing machine, a burglary or the loss of a job. She argues that savings – sometimes called 'rainy day money' in this context – can provide a financial cushion to protect people against such financial shocks. In addition, a store of assets can provide a psychological benefit. The knowledge that they have some funds to fall back on, if necessary, can improve people's current well-being, even if the likelihood of having to access the funds is low. Assets increase resilience to shocks and thereby improve quality of life.

A second approach to asset-based welfare highlights the role of assets in changing behaviour. This school of thought is most closely associated with the American academic Michael Sherraden who was the first to coin the phrase 'asset-based welfare' and propose the presence of an 'asset-effect' (Sherraden 1991, 2002). The asset-effect hypothesises that ownership of an asset can cause people to think and behave differently in the world, engage more with society and, crucially, be more willing and able to make a series of investments for their future. This line of thinking sees assets as a type of 'preventative welfare': that is, welfare that emphasises the importance of people taking the steps that prevent problems from emerging rather than trying to address or 'cure' them once they have already occurred. For example, if individuals invest in training, this may reduce the likelihood that they will become unemployed.

This theoretical approach has spawned an empirical literature that explores the presence or otherwise of an asset-effect. Although there are still some doubters, evidence now points to the presence of such an effect (see, for example, Bynner 2001, Emmerson and Wakefield 2001, Sherraden 2002, McKay and Kempson 2003, and McKnight 2007).

It is important to emphasise that there is nothing intrinsic to asset-based welfare that means it has to be a replacement for income benefits or public services, even though assets are seen in this light in some quarters. In the United States, for example, Murray (2006) suggests that the welfare state should be replaced by the provision of an annual \$10,000 grant for all individuals aged 21 years old or over. He argues that the aims of government in providing welfare are well intentioned but claims that such provision creates a dependency culture. He believes it would be better if all the money government now spends on public services were given to people themselves. Murray's view is, however, a minority one and most commentators see assets as a complement to, rather than substitute for, other types of policy (Paxton 2003).

### **The Saving Gateway**

An example of this complementary approach in the UK is the Saving Gateway account, designed to help people on low incomes build up a cushion of assets, while allowing them instant access to funds in the account in times of need. These accounts will be available from July 2010. People will qualify if they receive tax credits (and have a household income of less than £16,040) or any of the following benefits: Income Support, Jobseeker's Allowance, Incapacity Benefit, Employment Support Allowance or Severe Disability Allowance.

The Saving Gateway runs for two years and account holders can save up to £25 a month. The Government provides a 50p match for every £1 saved, made at the end of the two years. People can withdraw the money they have saved at any point during the lifetime of the account without affecting the government match they have earned at that point<sup>3</sup>. There is no suggestion that the introduction of the Saving Gateway account has been associated with any change to other parts of the welfare system.

Assets are important, therefore, both as a way of providing a financial cushion and as part of a longer-term strategy to stop poor children from becoming poor adults. The recent report of the National Equality Panel on economic inequality in the UK notes that wealth is distributed more unevenly than other indicator it examined, such as income, employment status and educational outcomes. The report notes that the bottom 10 per cent of households have average wealth below £8,800, while the top 10 per cent have average wealth above £853,000. The top 1 per cent has wealth above £2.6 million (National Equality Panel 2010). Efforts to boost asset ownership among low-income families take place against a background of substantial wealth inequality.

## **In defence of the Child Trust Fund**

The arguments against Child Trust Funds can also be countered specifically.

### **A small percentage of total public spending**

First, scaling back or abolishing the CTF will not have a major impact in reducing the public sector deficit. In 2008/9, the administrative cost of running the CTF (communication costs, staff on the CTF helpline and information technology) was £4.8 million. The cost of providing CTF grants in the same year was £250 million. Because the first top-ups at age seven are made from September 2009 and the Government will provide an extra £100 for children with disabilities from 2010/11, the cost of CTF vouchers to the exchequer will rise to £380 million in 2009/10 and £520 million in 2010/11 (HM Revenue and Customs 2009b). However, this needs to be seen in the context of total public spending that is projected to be £674 billion in 2009/10, rising to £704 billion in 2010/11 and a public sector deficit that is projected to be £167 billion in 2009/10 and £163 billion in 2010/11 (HM Treasury 2010b). The amount projected to be spent on the CTF, including administrative costs, in 2010/11 amounts to only 0.07 per cent of total public spending.

### **Encouraging poor families to save**

Second, while the different capacity of families to make extra savings into CTFs is a real problem, this is not a reason to get rid of CTFs. A more positive response would be to find a way of encouraging poorer families to save. This could be done by the Government matching savings, in the same way that will happen in the Saving Gateway accounts. David White, Chief Executive of The Children's Mutual (the largest single distributor of CTFs in the UK),

---

3. Full details can be found at [www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingMoney/SavingsAndInvestments/DG\\_10010450](http://www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingMoney/SavingsAndInvestments/DG_10010450)

has proposed that government could match savings of up to £10 per month into the CTF for those on low incomes (Institute for Public Policy Research 2007).

### Help for the long term

Third, although the CTF does not provide immediate relief to families, it was never intended to do so. Such help is provided by other types of benefit, and there is no evidence that the provision of funds for CTFs has led to cutbacks in funds available for the immediate relief of families in need. CTFs are a long-term policy, and have to be seen in that context. The CTF should be regarded as part of a preventative response for the future. While it is important to address poverty today, it is possible to simultaneously implement longer-term strategies for reducing poverty. The CTF can help young people build up assets, so that if and when they become parents themselves, they have access to savings that will benefit their own offspring.

## Next steps

Much will depend on the result of the forthcoming general election. A Labour Government would be unlikely to make any significant changes to Child Trust Funds. A Conservative Government would, presumably, implement George Osborne's proposal to limit CTFs to the poorest third of families.

Whoever wins the election, however, improving parental enrolment, particularly among low-income families, is likely to be a concern. One way policy might be developed is to take on the lessons of behavioural economics. Richard Thaler and Cass Sunstein's book *Nudge* (2008) has attracted wide interest within the policy community both in the UK and overseas. At its heart is a view that institutions and policy should 'nudge' people into making particular choices, including in the area of saving. Thaler and Bernatzi (2004) outline a set of 'save more tomorrow' (SMarT) principles that are aimed at encouraging people to save. These include emphasis on automatic enrolment into savings schemes (building on people's inertia) and using payroll deductions as a way of encouraging people to save once they are contracted into a scheme (because people miss less the money they have never had in their pocket or their bank account).

Defaults are thus a key feature of behavioural economics. The CTF already embodies a particular approach to defaults, which is that the Government opens a default stakeholder account for a child if a parent has not opened an account within a year. One possible policy change would be to introduce this default earlier; CTFs might be opened automatically by government for all children. However, this would entail forgoing some of the possible benefits of an asset-effect for parents. In particular, if one aim of the CTF is to develop an asset-effect among parents, then it would be better to take more steps to encourage parents to open an account themselves.

Some measures have already been pursued in the UK to try to make the opening of accounts easier, for example allowing parents to open accounts without the need to present a voucher (HM Revenue and Customs 2008). Auto-enrolment would also entail all CTFs being invested in the default, stakeholder, option, presumably with the Government allocating funds to providers on an equal basis. This would limit parental choice. It would also make it impossible for the Welsh Assembly to pursue its aim of increasing the number of CTFs opened with credit unions, so forgoing possible benefits that might follow from getting families to experience financial service provision through credit unions. There is a trade-off between the benefits of automatic enrolment and the benefits of the asset-effect and of encouraging engagement with financial services that is not easy to negotiate.

Another important issue is encouraging parents to make additional savings into CTFs once they are opened. It may transpire that if the Government opens an account, parents are

more likely to leave it alone. Attention should, therefore, be paid to how best to support people to save, for example through the use of incentives. One way is to adapt the suggestions of the SMarT principles. People might be encouraged to set up direct debits to allow a fraction of saving from any income they receive. However, this is not an uncontroversial proposal. In some circumstances, it may be better for those on low incomes to pay off existing debts rather than save, even if the saving is for their child's long-term future. At the least, any policy on saving should exist alongside improvements in debt management and advice.

### **Next steps for the Welsh Assembly Government**

The future actions of the Welsh Assembly Government with regard to Child Trust Funds will be constrained to some extent by decisions taken by the national government. In particular, if a Conservative Government is elected and restricts CTFs to children of families in the bottom one-third of the income distribution, the Welsh Assembly Government would have little choice but to follow suit with the Child Trust Fund Cymru. The Assembly Government's policy piggybacks on the national scheme, relying on the national government to bear the administrative costs of the setting up funds. It is unlikely that the Assembly Government could justify taking over these administrative costs for the children of the approximately 62 per cent of families in Wales that would no longer have CTFs opened for them by the national government under the Conservative proposal.

The Assembly Government would then have a choice. It could continue to pay an extra £100 into the CTF accounts of children still receiving CTFs from the national government, thus eventually almost halving the cost of the CTF Cymru programme<sup>4</sup>. Alternatively, it could maintain its planned level of funding and double the value of the CTF Cymru to £200 for those that receive it. This would seem to be the preferred move, given the desire to reduce child poverty in Wales, but there are alternative options.

One concern for the Welsh Assembly Government might be measures to increase the opening of CTFs by parents. This is likely to be particularly important for poorer families because current data on CTF opening rates suggest they are lower among low-income families. This issue could become more important in the future if the Conservatives are elected to government and follow through with their proposal to restrict the CTF. If those on low incomes feel a stigma is attached to opening a CTF, they might become even more reluctant to do so. It has been noted in other contexts that benefits for the poor can become poor benefits.

Even more important in this context will be take-up of CTF Cymru. Parents have to complete a form to claim the CTF Cymru top-up from the Assembly Government; there is no auto-enrolment. If data show that take-up rates for CTF Cymru are as low as parental enrolment rates for the main CTF, particularly among low-income families, the Assembly Government should consider devoting some resources to trying to improve them, whether through an education campaign or through some other route.

The Welsh Assembly Government should also prioritise measures designed to encourage additional saving into the CTFs of children living in low-income families in Wales. If, for example, a future Conservative Government does restrict the CTF to low-income families, thus forcing the Assembly Government to follow suit with the CTF Cymru, it should use some of the money it would save to provide incentives – in the form of matching – to those parents from low-income families who invest extra sums into their children's CTFs.

If the CTF is scaled back and take-up rates do not improve, it is possible that a future national government might stop issuing vouchers and simply auto-enrol children in CTFs at

---

4. The cost is almost halved because just over one-third of children now receive £100 and two-thirds receive £50. In future, just under two-thirds would receive nothing.

birth. One important issue then would be which providers would want to offer CTFs and which would be chosen as the default option. The Welsh Assembly Government has emphasised the role of credit unions as a way of delivering the CTF because they might have some success in reaching out to people in Wales who have often been excluded from financial services. However, credit unions are locally-based organisations and would find it difficult to be a main provider of CTFs on a national basis. Auto-enrolment would, therefore, threaten their role in the provision of CTFs. If the Welsh Assembly Government wanted to preserve a significant role for credit unions in these circumstances, it would have to argue the case with national government for regional allocations to default providers.

## Conclusion

The Welsh Assembly Government has been prepared to use asset-based welfare more extensively than the rest of the UK in its efforts to tackle child poverty. This can be seen in its policy of making top-ups to the CTFs of children in Wales. It has also emphasised the delivery of CTFs through credit unions. These efforts now face a possible challenge. The fall-out from the recession is feeding into potential changes in the CTF at the national level. A future Conservative Government would restrict CTFs to children in low-income families. This would have implications for the Welsh Assembly Government's programme. But, to the extent that it potentially frees up funds that would have been used otherwise to top up the CTFs of children from middle and higher incomes, it provides an opportunity.

These funds could be used to double payments to children in low-income families in Wales. Alternatively, they could be used to encourage more parents to open CTFs for their children, to claim the CTF Cymru top-up and to make additional savings into their children's CTFs. This might be allied to more extensive use of credit unions. Research into asset-based welfare suggests such moves would have positive long-term effects on the families and their children.



## References

- Arestis, P. and Sawyer, M. (2009) 'The future of public expenditure', *Renewal*, 17(3), pp.32-42
- Ben-Galim, D., Lawton, K. and Norris, E. (2010) 'Child poverty and early years services' in Lodge G. and Schmuecker K. (eds.) *Devolution in Practice 2010*. London: ippr (forthcoming)
- Brewer, M., Browne, J., Joyce, R. and Sutherland, H. (2009) *Micro-Simulating Child Poverty in 2010 and 2020*, at <http://www.ifs.org.uk/comms/comm108.pdf>
- Bynner, J. (2001) 'The effect of assets on life chances' in J. Bynner and W. Paxton, *The Asset-Effect*, London: Institute for Public Policy Research, pp.17-37.
- Cable, V. (2010) Speech to Liberal Democrat Spring Conference, at [http://www.libdems.org.uk/news\\_detail.aspx?title=Vince\\_Cable\\_speech\\_to\\_Liberal\\_Democrat\\_Spring\\_Conference&pPK=eb49bc7f-59e9-434f-8807-cd8d1fe0305d](http://www.libdems.org.uk/news_detail.aspx?title=Vince_Cable_speech_to_Liberal_Democrat_Spring_Conference&pPK=eb49bc7f-59e9-434f-8807-cd8d1fe0305d)
- Child Poverty Action Group (2005) CPAG briefing on the Child Trust Fund, [http://www.cpag.org.uk/info/briefings\\_policy/Child\\_Trust\\_Fund\\_CPAG\\_briefing\\_paper.doc](http://www.cpag.org.uk/info/briefings_policy/Child_Trust_Fund_CPAG_briefing_paper.doc)
- Conservative Party (2010) *Where We Stand: Economy*, at [http://www.conservatives.com/Policy/Where\\_we\\_stand/Economy.aspx](http://www.conservatives.com/Policy/Where_we_stand/Economy.aspx)
- Department for Work and Pensions (2009) *Households Below Average Income* available at [http://research.dwp.gov.uk/asd/hbai/hbai2008/pdf\\_files/full\\_hbai09.pdf](http://research.dwp.gov.uk/asd/hbai/hbai2008/pdf_files/full_hbai09.pdf)
- Drakeford, M. (2007) 'Social Justice in a devolved Wales', *Benefits: a journal of poverty and social justice*, 15(2), pp.171-8
- Drakeford, M. and Gregory, L. (2007) *Sleeping Giants: unlocking the potential of credit unions in Wales*, Working Paper 97, School of Social Sciences, University of Cardiff, at <http://www.cardiff.ac.uk/socsi/resources/wp97.pdf>
- Emmerson, C. and Wakefield, M. (2001) *The Saving Gateway and the Child Trust Fund: is asset-based welfare 'well fair'?*, London: Institute for Fiscal Studies
- Hirsch, D. (2009) *Ending Child Poverty in a Changing Economy*, at <http://www.jrf.org.uk/sites/files/jrf/hirsch-child-poverty-changing-economy.pdf>
- HM Revenue and Customs (2009a) *Child Trust Fund: number of vouchers issued by Westminster parliamentary constituency*, at <http://www.hmrc.gov.uk/ctf/cons-stats-nov09.pdf>
- HM Revenue and Customs (2009b) *Child Trust Fund: statistical report 2009*, at <http://www.hmrc.gov.uk/ctf/statistical-report-2009.pdf>
- HM Revenue and Customs (2009c) *Child Trust Funds Statistics. Detailed distributional analysis*, at [http://www.hmrc.gov.uk/stats/child\\_trust\\_funds/dda2009.pdf](http://www.hmrc.gov.uk/stats/child_trust_funds/dda2009.pdf)
- HM Revenue and Customs (2008) *Summary of Responses – Child Trust Fund: consultation on the voucher requirement for account opening*, at <http://www.hmrc.gov.uk/budget2008/child-trust-fund-condoc.pdf>
- HM Revenue and Customs (2007) *Child Trust Fund: accounts opened by government office region*, at <http://www.hmrc.gov.uk/ctf/cons-stats-by-region.pdf>
- HM Treasury (2010a) *Ending child poverty: mapping the route to 2020*, at [http://www.hm-treasury.gov.uk/d/budget2010\\_childpoverty.pdf](http://www.hm-treasury.gov.uk/d/budget2010_childpoverty.pdf)
- HM Treasury (2010b) *Budget 2010: Securing the recovery*, at [http://www.hm-treasury.gov.uk/d/budget2010\\_complete.pdf](http://www.hm-treasury.gov.uk/d/budget2010_complete.pdf)
- HM Treasury (2009) *Public expenditure outturn update, 9/12/09*, at [http://www.hm-treasury.gov.uk/d/pn\\_117\\_09\\_outturn.pdf](http://www.hm-treasury.gov.uk/d/pn_117_09_outturn.pdf)

- HM Treasury (2006) *A Strong and Strengthening Economy: investing in Britain's future*, London: Stationery Office
- HM Treasury (2003) *Detailed Proposals for the Child Trust Fund*, London: HM Treasury and Inland Revenue
- Institute for Public Policy Research (2007) *Seminar report on New Directions for Asset Building Across the Globe*, 2 October. <http://www.ippr.org/research/teams/project.asp?id=1289>
- Lewis, H. (2008) *Child Poverty in the Current Economic Climate*, at <http://wales.gov.uk/docs/dsjlg/publications/comm/090305cpegletter081030.pdf>
- Lister, R. (2006) 'Poverty, material insecurity, and income vulnerability: the role of savings', in Sodha, S. and Lister, R., *The Saving Gateway: from principles to practice*, London: Institute for Public Policy Research, pp.8-33.
- McKay, S. and Kempson, E. (2003) *Savings and Life Events*, research report number 194, (London: Department for Work and Pensions)
- McKnight, A. (2007) *Evidence of an Asset-Effect on Earnings? New results from the 1958 birth cohort study*, Paper given at Welfare Policy and Analysis Seminar, London School of Economics, 12 December
- Murray, C. (2006) *In Our Hands. A Plan to Replace the Welfare State*, Washington D.C.: American Enterprise Institute
- National Equality Panel (2010) *An Anatomy of Economic Inequality in the UK. Report of the National Equality Panel*, at <http://www.equalities.gov.uk/pdf/NEP%20Report%20bookmarked.pdf>
- Office for National Statistics (2009) *Public Sector Finances*, December 2009, at <http://www.statistics.gov.uk/pdffdir/psf0110.pdf>
- Osborne, G. (2009) *We will lead the economy out of crisis*, at [http://www.conservatives.com/News/Speeches/2009/10/George\\_Osborne\\_We\\_will\\_lead\\_the\\_economy\\_out\\_of\\_crisis.aspx](http://www.conservatives.com/News/Speeches/2009/10/George_Osborne_We_will_lead_the_economy_out_of_crisis.aspx)
- Paxton, W. (ed.) (2003) *Equal Shares? Building a progressive and coherent asset-based welfare policy*, London: Institute for Public Policy Research
- Paxton, W. (2001) 'The Asset-Effect: an overview', in J. Bynner and W. Paxton, *The Asset-Effect*, London: Institute for Public Policy Research, pp.1-16
- Sherraden, M. (2002) *Individual Development Accounts: summary of research*, St Louis: Center for Social Development, University of Washington
- Sherraden, M. (1991) *Assets and the Poor, A New American Welfare Policy*, New York: Sharpe Incorporated
- Thaler, R. and Benartzi, S. (2004) 'Save more tomorrow: using behavioural economics to increase employee saving', *Journal of Political Economy*, 112(1), pp.S164-S187
- Thaler, R. and Sunstein, C. (2008) *Nudge. Improving decisions about health, wealth and happiness*, New Haven: Yale University Press
- Welsh Assembly Government (2010) *Child Trust Fund*, at <http://wales.gov.uk/publications/accessinfo/dnnewhomepage/governmentdrs/2010/chldtrustfund/?lang=en>
- Welsh Assembly Government (2009a) *Welsh Child Trust Fund top-up to begin in September*, at <http://wales.gov.uk/topics/childreynyoungpeople/childpoverty/news/trustfundtopup/;jsessionid=pLd6KJTWsGvK31QdJlGKyjD2dd1y1CCkBnTysnLLmTxwQ3B1MgQ!-1895006922?lang=en>
- Welsh Assembly Government (2009b) *Child Poverty Targets and Milestones to 2020: Update*, at <http://www.statswales.wales.gov.uk/TableViewer/document.aspx?ReportId=7288>
- Welsh Assembly Government (2009c) *Assembly government reaches Child Trust Fund account target*,



3 June, at <http://wales.gov.uk/topics/childrenyoungpeople/newsitems/childtrustfundtarget/?version=1&lang=en>

Welsh Assembly Government (2008a) Child Poverty Expert Group, at <http://wales.gov.uk/topics/childrenyoungpeople/childpoverty/childpoverty/?lang=en>

Welsh Assembly Government (2008b) Options for Implementing the Proposal to add a Welsh premium to the Child Trust Fund scheme in Wales, at <http://wales.gov.uk/publications/accessinfo/drnewhomepage/economicdrs/economicdrs2008/childtrustfundwelshpremium/?lang=en>

Welsh Assembly Government (2007) One Wales: a progressive agenda for the government of Wales, at <http://wales.gov.uk/about/strategy/publications/onewales/?lang=en>

Williams, R. (2010) 'Child Trust Fund fails poor families, say Conservatives', *Guardian*, 4 January 2010

Winckler, V. (2009) What is Needed to End Child Poverty in Wales?, at <http://www.jrf.org.uk/sites/files/jrf/end-child-poverty-wales-summary.pdf>