Child Trust Funds and Local Authorities

Challenges and Opportunities

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Executive Summary

From April 2005, Child Trust Funds will be available to parents of all children born after 1 September 2002. The policy represents an innovative approach for government, and is ripe for further development. New opportunities are being created, new gaps must be filled and local authorities must actively pursue these challenges to fulfil the policy's potential.

This paper is divided into four sections. In section 1 we describe the **background** to the Child Trust Fund (CTF) debate, and in broad terms why it might be relevant for local authorities. After this, in sections 2, 3 and 4, we outline three areas worth further exploration by local authorities. These are:

Supporting looked-after children. There is a strong case for local authorities giving additional deposits to the accounts of looked-after children. Such deposits, perhaps in the region of £50 a year for those who qualify, would not be expensive but would make a big difference to the lives of the recipients. Local authorities should also consider the need for more financial education, support of investment decisions after 16 and advice on the use of CTFs at 18.

Promoting financial capability. Without access to affordable credit, a bank account or other financial services, the escape from poverty is harder. The introduction of CTFs could increase interest in financial education and provide a spur for services that reduce financial exclusion. In theory it is a potentially-valuable opportunity; but this paper finds that on balance the costs of exploiting it are too great. Local authorities are right to be concerned about financial capability, and should certainly be taking action to reduce the barriers to full financial inclusion, but the benefits of linking this to CTFs are not sufficiently clear.

Although new training programmes are not recommended, local authorities need to ensure that staff in advice centres are aware of CTFs, and able to respond to requests for advice.

Encouraging active citizenship and volunteering. This is an issue that central government showed interest in when the CTF was first launched, but has not followed up. An innovative local authority could act as a trailblazer and the most fruitful link could be to reward forms of civic participation, such as serving on a citizens' jury with credits into CTF accounts.

For each of these areas we outline the rationale for local authorities considering policy options; some more specific policy options; and some conclusions.

This report was commissioned by the London Borough of Camden, and has benefited from the expertise of Camden staff. It refers to the specific circumstances of Camden where appropriate, but is relevant to all local authorities.

Section 1: Background

Child Trust Funds are an innovative savings policy that will affect every new baby. The government will give every child a voucher worth £250, or £500 for children from the poorest third of families. Further top-ups will be given at the age of seven, and parents and friends will be encouraged to make their own donations. When the child turns 18, the money and all its interest can be spent on whatever they see fit – a deposit for a flat, higher education, starting a business or buying a car, for example. It will encourage a savings habit for a whole generation, spreading asset ownership and financial understanding through the population.

Although relatively unknown now, the profile of Child Trust Funds is rising. From next spring, parents of children born since September 2002 will receive vouchers to open their children's accounts. Leaflets and television adverts will explain entitlements and encourage parents to contribute, and banks and building societies will start advertising to run the accounts.

There are several reasons why local authorities might want to respond this. The strongest is that they may have a statutory duty – such as in the case of looked-after children, for whose welfare local authorities are responsible. A good case for intervention can also be made when the local community has specific needs that can only be addressed on a local level. Finally, local government could pioneer services that could later be adopted more widely, including by central government.

The London Borough of Camden, as an innovative council, may in particular wish to pioneer responses to the Child Trust Fund. LB Camden is working in partnership with ippr in several areas, considered responses to the Child Trust Fund from an early stage, and wrote its own paper on the subject.

With these motives in mind, this paper assesses the case for local authority action in three broad areas:

- **Local authorities as corporate parents**
  Opportunities for increasing the welfare of looked-after children revolve around additional deposits by the local authority, supporting investment decisions after 16, guidance on the use of CTFs and broader financial education.

- **Using CTFs to develop local financial capability**
  This could aim either to increase the proportion of low-earners who have access to financial services, increase the financial literacy of local residents, or increase savings rates. Measures could focus on either the supply side (supporting financial institutions), or the demand side (supporting local residents).

- **Using CTFs to encourage volunteering and other forms of civic engagement**
  Deposits into CTF accounts could be used as way of encouraging certain values and activities, either amongst the parents or the children.

These are discussed in turn. For each we ask what objectives should be aimed for, what policy options might meet those objectives, and the drawbacks and challenges to those policies. Each section concludes with some key questions for discussion, and a recommendation as to which possible policies should be carried forward.

Section 2: Looked-after children

2.1 Rationale

The case for action with looked-after children is underpinned by the statutory responsibility of local authorities. The Children Act, 1989, states that local authorities must:

> *make such use of services available for children cared for by their own parents as appears to the authority reasonable in his case.*
>
> (Children Act 1989, Section 22(3)(b))

The Children (Leaving Care) Act, 2000, further strengthened the obligations of local authorities, adding a duty to assist with the costs of education, employment and training of care-leavers aged 18–21 (known as the 'former relevant'). These general duties could be applied to the CTF in several ways including:

- **Increasing the value of CTF accounts**
  Looked-after children are likely to have smaller CTFs than their peers, but also have more need of them. Their own parents will not provide the financial investment that many others take for granted.

- **Using CTFs to foster long-term planning**
  The rationale for the CTF has always been as much behavioural as financial. The ownership of assets is thought to lengthen time horizons, increase the propensity to plan, and foster a sense of security. As the Child Trust Fund Bill passed through parliament, several MPs argued that payments equivalent to child benefit should be paid into the accounts of *all* looked-after children. One noted:

  > *It will emphasise to young people in care that they have their whole lives ahead of them, that they are young people of ability and that they have a real chance to make good in their lives, and that an asset such as this can help them. Certainly it can help every young person, but it can help such young people in particular.*
  >
  > (Mr Dawson, 4th sitting of Standing Ctee A, col. 129)

- **Helping the CTF account to be well used at maturity**
  Most parents can be expected to provide their children with guidance, especially at 16, when the child becomes responsible for investment decisions, and at 18, when he or she can start spending the money. The local authority may have to play that role for looked-after children. A careful path must be trod between ensuring that the fund is well used, and respecting the legal control and autonomy of the fund owner.

2.2 Policy Options

It is important to stress that all the following options should be *additional* to existing support and services. They should not replace them.

Policy option 1: local authority deposits

The local authority could place extra deposits into the accounts of looked-after children. As corporate parent, the local authority could be seen to have a duty to make the contributions that would otherwise be made by a parent.

This would help resolve the asset poverty of children leaving care, would help emphasise the long-term future of looked-after children, and would give a good justification for further guidance on how the money is used.

Challenges and questions:

Eligibility
The needs of looked-after children vary immensely. While some are deeply damaged children who have permanently lost contact with their birth family, others experience only short periods in care, perhaps under a respite order. The needs of those in voluntary care differ from those under a care order; those placed for adoption differ from those under special guardianship, shared between the local authority and named guardians. How should local authority deposits respond to these differences? For those who are in care for very short periods of time, the impact of local authority deposits is likely to be minimal. On the other hand, those who frequently move in and out of care may have higher needs than children who have a more stable environment, perhaps including those who have grown up in a foster home.

To further complicate matters, there is often no clear point at which children move from one category to another. Adoption, for example, is a slow process: at what point would the adoptive parents take responsibility for CTF deposits? And how should local authorities respond when children move to a different area?

The criteria need to be responsive to individual needs, but administratively simple for the Council. A balance could be struck by giving deposits if:

- A minimum amount of time is spent in care in the year previous to the deposit. Although this would be relatively easy to administer, it would create a perverse incentive to spend time in care for those just under the boundary.
- At least 13 weeks have been spent in care since the age of 14. This is the definition of 'eligible children' in the 2002 Act, so defining those entitled to CTF deposits would not impose an extra burden on the local authority. The focus on older children would remove the potential for substantial growth of the fund, but may make deposits more sensitive to the young person's situation when he or she leaves care: deposits when the child is young reflect his or her situation when young, which may change substantially by the age of 18.
- Any time at all is spent in care, with the size of the deposit calculated on a per-day basis. Although this is more responsive to the needs of each child, it would be administratively more complex. Aside from the need to calculate how many days have been spent in care, there would be difficult boundary cases over how whether some children were or were not in care at specific times. A threshold, like the two options above, would avoid this problem in most cases.

Which of these options is preferable? A threshold is easier, but a sliding scale is more responsive to need. A threshold creates potentially-large incentives for some children to stay in care, but a sliding scale creates small incentives for all children to stay in. A threshold could miss children who spend small periods of time in care over many years, but a sliding scale has to be more rigid about defining who is or is not in care. On balance, though, it seems that most of these problems would be minimised if local authorities used a low threshold, in particular the issues of administration cost and boundary issues.

Maximising the impact on behaviour
The primary aim of CTFs is to build an asset base for all. But this does have a secondary effect: as mentioned above, holding assets can lengthen time horizons and encourage greater planning. How the account is managed and presented could change how much this behavioural effect is felt.

As a symbol that the local authority cares about, and is planning for, the child's long-term future, it is first of all vital that the deposits be sustained and predictable. The local authority needs to make a long-term investment to the children's accounts, and resist pressures to reduce or stop payments when budgets are tight.

The timing of the deposits may also be important. For example, giving the deposit near the child's birthday could emphasise the financial-education and caring side of the CTF, as they would coincide with a statement by their account provider outlining growth over the last year. Deposits timed with the financial year would be the most administratively simple, but possibly the least effective in this respect.

The size of deposits
Even a small amount could build up to a reasonable asset at maturity. For example, suppose that the CTF grows at a steady rate of 4.5% a year, having taken charges and inflation into account (this is the rate used by the Inland Revenue in worked examples), then the final value would be as shown in the table below.

Annual payment	Value if given from 14 to 18	Value if given from six to ten	Value if given from birth to 18
£20	£110	£155	£581
£50	£270	£390	£1,450
£598 (equivalent to child benefit for a second child)	£3,270	£4,650	£17,380
£858 (equivalent to child benefit for a first child)	£4,690	£6,680	£24,930

How much all this would cost the local authority depends on the number of recipients as well as the size of the donation. Using the example of Camden, 328 children were being looked after on 31 March 2000 (London Borough of Camden, 2000). Of these, around 218 had been in care for more than a year. If only these children were given deposits, then:

- £20 each year would cost £4,260;
- £50 each per year would cost £10,650;
- £598 each year would cost £130, 360;
- £858 each per year would cost £187,045.

The cost of making deposits to all children would be harder to predict: the total number who move in and out of care is larger than the snapshot, but on the other hand, some may not be in care long enough to reach the threshold. Assuming for now that these two effects cancel each other out, and the snapshot figure gives the number of recipients, the cost of giving £50 to all children would be £16,400.

Bearing in mind both the benefit to children and the cost to local authorities, how much should local authorities contribute? The full value of child benefit is clearly too much: an extra £130,000 or £187,000 of spending on looked-after children could be used in more productive ways than this, and the perverse incentives to stay in care would become acute with such large sums of money. A figure around £50 per year, though, would provide a valuable asset buffer for the child, but would not be prohibitively expensive. The cost to the council given above is approximate, and ignores administration costs. But even if it is a significant under-estimate, even by an order of magnitude, it shows that the total expenditure is not exorbitant.

Would it matter if local authorities contribute to CTF inequality?
When the accounts mature at 18, there would be some individuals with small accounts, as their parents did not save into their account and they spent only short periods in care or none at all. Others will have sizeable deposits, in some cases only because they have spent most of their lives in care.

Should local authorities be concerned about this new source of inequality? If deposits are only of the size recommended above, around £50 per year, then they should not. Although it is possible that it may cause some resentment, it will be mirrored in a broader inequality between parents who have contributed and those who have not – CTFs of different sizes will not be unusual. It can also be argued that the one who has been in care for longer is likely to have a greater need for assets. Finally, local authorities should not be concerned if looked-after children are given a better start in life than other, poor children who never spent time in care. Local authorities should aspire to give the best upbringing they can, not a level below the poorest child who is not in care.

Policy option 2: education and guidelines
New financial education relating to CTFs is expected to be included in the national curriculum. For most children, however, education in schools will be only one source of advice: advice from parents also plays a part. For looked-after children, lessons in financial education could be expanded, and could incorporate the CTF. For children in residential care, this will require a named social worker to take responsibility, and the consideration will have to be given as to how this fits with children's right to independent advocacy.

Guidelines or advice on how the CTF is spent could also be beneficial, and are appropriate under terms of the Children (Leaving Care) Act 2000. However, it is important to recognise the ultimate autonomy that account-holders have as to how their money is spent – an autonomy protected by law. With this firmly in mind, it might still be worth integrating discussions about the use of the CTF into care leavers' pathway plans. The decisions themselves can be delayed for several years, but processes may need to be put in place now to prevent the issue being lost.

2.3 Conclusion
Local authorities should seriously consider making extra deposits into the Child Trust Funds of looked-after children. Inaction on the part of local authorities, and the inequalities that will result, will be very hard to justify when children reach 18. Looked-after children have a greater need than their peers, and are less likely to have their own assets. The cost of the policy is unlikely to be high, but the benefits will be considerable.

Key issues for local authorities to resolve are around who should get a deposit, how much should be given, and how to ensure their deposits are sustainable and additional to existing services. From the different options presented, this paper has recommended giving £50 per year to all children who are looked-after for more than a set length of time, perhaps 13 weeks to be consistent with the Children (Leaving Care) Act 2000.

Local authorities need to start considering processes now to support financial education and CTF advice. This includes extending the financial education of looked-after children and ensuring personal advisers can provide guidance on productively spending CTFs.

Section 3: Developing local financial capability

3.1 Rationale

Not having a bank account, using informal and inefficient savings mechanisms, and relying on expensive credit can mean that many of the poorest families also have the highest costs. The benefits of financial inclusion can be long term and far-reaching: access to affordable credit and savings mechanisms allows individuals to invest in their long-term development, perhaps through training, housing or starting a business. In this context, the Child Trust Fund could help draw people into financial markets, using the hook of CTF ownership to engage both parents and children. Local authorities could use this extra interest in financial services to achieve three possible outcomes:

- **The CTF could be used to improve access to financial services**
  Key financial services include bank accounts, savings products, affordable credit, and insurance. One reason why some people are discouraged from opening bank accounts is that they are intimidated by unfamiliar surroundings and language: a CTF would be a gentle induction for parents. It would provide a personal demonstration of compound interest or equity markets, and would make financial products more relevant and interesting.

- **The CTF could be used to encourage savings**
  The lack of a financial asset base can damage people's ability to invest in personal development or cope with unexpected and lumpy expenses. Saving is also thought to encourage more long-term planning (Bynner and Paxton 2001). Although not all individuals should be saving at every point in their lives, many groups are thought to have inadequate savings. Child Trust Funds could help by developing a savings habit that is then continued in other forms, in other accounts and for other purposes.

- **The CTF could be used to encourage people to seek financial advice**
  The Citizens' Advice Bureaux have found that they only see those in dire need: earlier advice would break the cycle of unsustainable debt sooner and easier. Generic advice would focus on how to minimise outgoings, manage debt and maximise income, rather than on specific financial products. As the CTF helps people to think about their financial situation and to plan their finances, it could be used as a spur for them to seek generic or product-specific advice.

3.2 Policy options

Policy option 1: partnerships with community organisations

A common problem with financial education classes is that take-up is very low unless they 'piggy-back' other services and are delivered through trusted intermediaries. This being so, could CTF delivery be arranged with local community organisations? They could provide advice on debt and financial management, linking themselves to the CTF by acting as intermediaries between parents and financial institutions. They could also help explain the CTF market and the advantages of different products available.

However, the exact form of their advice would have important implications for regulation: specific recommendations, or acting as an 'introducer', would count as a financial service and be regulated by the FSA. No community organisation other than credit unions would be able to take part, and even their clearance has yet to be finalised. Alternatively, parents could be contacted by community organisations after they have opened their CTF accounts.

Challenges and questions:

Selecting a partner
One model would be Services Against Financial Exclusion (SAFE) at Toynbee Hall. Although many authorities, including Camden, have no direct equivalent, an agreement such as this could be the first step in building one up. Alternatives to look at include:

- Mary Ward Legal, who currently provide some debt advice;
- Citizens' Advice Bureaux;
- Credit Unions, who are already in the process of arranging with the FSA to be able to be introducers to CTF account providers;
- ethnic minority organisations, such as Camden Chinese Community Centre, the Ethiopian Community in Britain, or the Somali Community Centre.

Whether such organisations have the capacity to expand services as much as would be needed is unclear.

Policy option 2: council employees could be recruited to encourage certain actions

Written information is often ignored by its target audience. Recruiting council employees to spread certain messages or encourage certain actions by word of mouth could be a valuable way to increase financial inclusion, and the introduction of Child Trust Funds could provide the immediate hook that is needed to engage clients' attention.

Such a move would also link in to the government's drive for joined-up government, and their desire to organise services around user groups rather than providers (as in Job Centre Plus).

Challenges and questions

There are two major barriers: what suitable message is there to promote, and who would be able to promote it?

Selecting the message
The focus should be kept on information relevant to the Child Trust Fund, or otherwise building on the assumed increase in financial interest that the CTF will provoke.

At its simplest, the message could be about sources of advice. It could also be the advice itself, perhaps about the importance of saving, or how and why to obtain financial services such as bank accounts or insurance. This presents some serious problems, however:

- advice would have to be 'generic', rather than product specific, in order not to be regulated by the Financial Services Authority;
- training would have to be given to all relevant workers;
- giving advice itself, rather than merely pointing to sources of advice, would take up considerable time which may be better used elsewhere.

Given the scale of investment that would be required, it is not clear that the extra interest provoked by CTFs is a sufficiently large factor to tip the balance. Whether an individual needs the advice above depends on many factors, and while the CTF may be one of those factors it is far from being the most important.

Selecting which council employees to use
Council employees must be trusted by the client, and so must already be visiting or talking to the family. Including the employees of partner organisations such as Primary Care Trusts or the Local Education Authority, this could mean:

- midwives, to help families to prepare for the coming financial costs of parenthood – they could encourage them to start saving before the birth;
- social workers;
- housing officers;
- health visitors, although not council employees, may still be worth considering because of their regular contact with new parents – they could be asked to pass on a very simple message, such as sources of advice.

All these professionals already have large workloads, and there are many other priorities which are vying for attention – the time of health visitors and midwives, for example, is said to be already under pressure simply to cover their statutory duties.

Policy option 3: classes and advertising on financial education

Local authorities could pay for advertising for financial education classes and information run by third parties. They could also provide financial education classes themselves for new parents. The 2004 Spending Review announced funding for classes for the unemployed through the Job Centre Plus, but there is still a gap for new parents.

Action is justified by the fact that parents are presumably more susceptible to the adverts when they have just received their CTF vouchers. Classes could be targeted at those who have recently received vouchers, and would explicitly refer to Child Trust Funds. If the service is provided locally – for example, by local Citizens' Advice Bureaux or community organisation – then only local, rather than central government, could advertise it.

The local education authority has a further role to play, supporting the work of schools on the CTF. This could be by providing materials for local schools or making sure LEA advisers were supporting teachers over the CTF.

Challenges and questions

Does the council have the capacity to organise classes or advertising?
Commissioning and arranging classes is likely to be organisationally complex. In the case of Camden, enquiries suggest that there is no generic financial advice service currently run by the local authority, so it would have to be started from scratch.

Would classes be well attended?
As mentioned above, classes in financial education are normally very poorly attended unless they can piggy-back other schemes and incentives.

3.3 Conclusions

In theory, the introduction of CTFs has the potential to raise the profile of financial capability. However, it is not obvious how this extra interest can be harnessed, and there are many barriers to effective local authority action. Staff are already under pressure, having a baby with a CTF will be only one, relatively minor, factor in whether advice is needed, and financial education classes often attract very few attendees. In summary, priorities lie elsewhere.

Yet even if local authorities decide not to be pro-active in offering advice, and do not actively pursue the hoped-for increase in financial education, they should expect some unsolicited requests for advice.

As a minimum, local authorities need to ensure that staff in advice centres and Sure Start are aware of CTFs, and able to respond to unsolicited requests for advice.

Section 4: Volunteering and active citizenship

4.1 Rationale

The first government consultation paper noted that:

> *The Child Trust Fund could also be used to link into broader social concerns such as civic responsibility, community service or educational achievement. An example of this could be for participating community groups to reward service from children by providing them with 'credits' that have a cash value only when paid into the Child Trust Fund.*

Linking CTFs and volunteering could serve both goals well. Providing an introduction to community action could help foster a more general ethos of volunteering, in a way that is more financially rewarding than standard volunteering but cheaper for the charity than employing more people. It would also serve the asset-building agenda, if focused support allowed children from more deprived communities to build up substantial capital. For example, a regeneration project in a deprived neighbourhood might attract mainly local volunteers, so rewarding volunteers channels extra finance into the neighbourhood. Where straight means-testing can be divisive and expensive, the use of self-selecting proxies such as these could effectively target support.

4.2 Policy options

Policy option 1: CTF credits for volunteering

Giving credits for volunteering could be seen as a more legitimate way for local authorities to encourage volunteering than outright cash payments. This may make it easier to raise corporate sponsorship, particularly if CTFs catch the public imagination – and if volunteering is indeed an 'ethic', and habit-forming, then gentle encouragement into that habit may pay dividends later.

While the children are still young, CTF credits would clearly have to reward the volunteering of the parents, rather than children. But as they grow up it could be extended, so that suitable community activities of children older than, say, ten, could be eligible.

<u>Challenges and questions</u>

Which groups should be eligible?
Eligibility could be restricted either to contain costs, or to meet other policy priorities. For example, formal volunteering rates are generally higher amongst higher income groups, so the asset-building aims may be missed if the programme is not restricted to poorer families. For children:

- Eligibility could be restricted to teenagers who are looked after by local authorities.
- Eligibility could be restricted to tenants in social housing.
- If activities were restricted to community building, and only local residents were eligible, then it could be used as a joint community and estate management tool.

Which activities should be eligible?
If the scheme attempted to reward all volunteering, there is a danger that an administratively expensive procedure could end up being used for relatively small amounts of money. Thus it may be best to have only a limited number of activities that are closely linked with the council. For parents, this could mean volunteering for Sure Starts, local nurseries, or crèches.
For children, it could mean the youth parliament, activities through schools (such as staying out of trouble or good attendance) or volunteering for youth clubs.

Cost effectiveness
The fact that payment would be delayed would reduce the incentive, as people generally value the present more than the future – a music voucher now might have more effect than £50 in five years' time. It is also uncertain how much parents will be incentivised by rewards to their children that far in the future. If the goal is purely to encourage volunteering for a particular project, there are likely to be cheaper and more effective options available.

CTF credits for volunteering could still be worthwhile, because it benefits both volunteering and asset-building. But would this dual benefit cause problems when it came to allocating the budget? For example, if a Sure Start centre wanted to recruit volunteers, volunteers could be found cost-effectively with incentives other than CTF credits, but the total benefit was greater if the CTF credits were used, who would pay the difference? If CTFs take an active hold of the imagination, though, it may be easier to find sponsors prepared to make CTF donations than give cash rewards.

How robust is the volunteering ethos?
There is some evidence that when volunteers are rewarded, they are also monitored; and when monitored, they cease to 'feel' like they are volunteering. The focus shifts from community, altruistic motives to individual ones, and the end result can be counter-productive. Does the time delay in a CTF payment overcome this obstacle?

Policy option 2: CTF credits for civic engagement
Rather than rewarding volunteering in the broadest sense, credits could be focused on rewarding active citizenship, such as taking part in citizens' juries or other deliberative forums (see, for example, Delar 1998). As observed by Ben Rogers (2004), there is a pronounced and growing class profile to active citizenship. The better educated and wealthier people are, the more likely they are to be active. There is a danger that public choices will, as a result, be biased towards the better off.

Low initial motivation can prevent people becoming involved, even when it is generally enjoyed and thought worthwhile when people try it. Giving CTF credits for some forms of democratic involvement could help provide the gentle encouragement that is needed.

Thus it is generally not true that community engagement should never be rewarded by the council, and this is especially the case when that reward would take the form of CTF credits. The volunteering ethos would not be destroyed if, for example, parents who help the council to test ideas on childcare are rewarded with CTF deposits for their children.

Such targeted support would also avoid many of the problems with rewarding all types of volunteering: there would be no boundary issues about what is or is not volunteering, and participants could be selected far more actively.

4.3 Conclusions

CTF credits for volunteering have the potential to increase both volunteering and asset-building. It seems to be an idea worth further investigation, but finding a suitable framework could be challenging.

The use of CTF credits to encourage civic engagement is particularly promising. Not all forms of engagement would be suitable, nor would all types of person. But where both person and activity can be linked to CTFs, credits provide an attractive halfway house between voluntary and paid engagement.

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