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Savings Accounts and Health in Pregnancy Grant Bill

Bill 73 of 2010-11

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The global financial crisis has had a profound effect on the public finances. Both the previous and current governments planned for reductions in public expenditure. This Bill gives effect to decisions made as part of the initial review of public expenditure undertaken soon after the 2010 General Election. Three schemes introduced by the previous Labour Government – the Child Trust Fund; the Saving Gateway; and the Health in Pregnancy Grant – are deemed to be unaffordable by the Coalition Government and will be brought to a close.

Timothy Edmonds
Steven Kennedy

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Contributing Authors: Timothy Edmonds, CTF & Saving Gateway, Business & Transport Section
Steven Kennedy, Health in Pregnancy Grant, Social Policy Section

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Summary

Faced with a substantial public finance deficit both the previous Government and the current Government formulated plans to reduce public spending. Three schemes were identified by the current Government as being unaffordable in the present economic climate. These were:

- The Child Trust Fund
- The Saving Gateway
- And the Health in Pregnancy Grant

The Child Trust Fund established an endowment fund for children born from September 2002 to which government would make a contribution at birth and at the age of seven. Parents, relatives and friends of the child could make additional contributions up to a certain limit. At 18, the child would have access to the fund free of tax. There were no conditions on how the fund was to be used and because no recipient has yet reached 18 the full impact of how it has worked is as yet unclear. Experience to date suggests that the scheme was popular with parents and relatives as a way of channelling savings for the child.

The Saving Gateway would have provided an incentive for individuals in receipt of certain benefits to save by providing a government bonus proportionate to how much had been saved. The scheme had been trialled in various cities and research from those trials suggested that it did provide a positive incentive to save for those who participated. To date no accounts had been opened under the national scheme.

The Health in Pregnancy Grant is a tax free, lump sum payment of £190 made to expectant mothers in the later stages of pregnancy who are ordinarily resident in the United Kingdom. The grant was designed in response to evidence regarding the importance of a healthy diet in the final weeks of pregnancy and the additional costs faced by parents when their children are born.

This Bill introduces provisions to discontinue further government contributions. Existing Child Trust Fund accounts remain but will receive no further government contribution.

The total savings resulting from the abolition of these three measures are likely to total about £4 billion by 2015-16.

1 Introduction

The global financial crisis has had a profound effect on the public finances. Both the previous and current governments had plans for reductions in public expenditure. This Bill gives effect to decisions made as part of the review of public expenditure undertaken soon after the 2010 General Election. Three schemes introduced by the previous Labour Government – the Child Trust Fund; the Savings Gateway; and the Health in Pregnancy Grant – are deemed to be unaffordable by the new Coalition Government and will be brought to a close. One of the three – the Child Trust Fund – has been in operation for a number of years. The Health in Pregnancy Grant was introduced only in 2009, while the Savings Gateway has only existed thus far as pilots scheme in parts of the country.

Copies of the Bill and the accompanying Departmental Explanatory Notes can be found on the Parliamentary website.[1] Library Research Papers produced when the original legislation was introduced can also be found on the Parliamentary website. They contain considerably more detail on the individual schemes should readers require further information.

Child Trust Funds Bill (Bill 1 of 2003-04)

Saving Gateway Accounts Bill (Bill 3 of 2008-09)

Health and Social Care Bill (Bill 9 of 2007-08)

Research Papers covering the Commons Committee Stages of these Bills are also available:

Saving Gateway Accounts Bill

Health and Social Care Bill.

The present Bill applies to the whole of the UK although parts of it refer to specific national requirements separately. This Paper looks at the history of the schemes; their intended purpose and how they are to be ended.

2 Child Trust Funds

The *Child Trust Fund Act 2004*, created a Child Trust Fund (CTF) (previously described as a 'baby bond') in the form of a financial endowment from government payable to every child at birth. The invested endowment, plus later government 'top-ups' and additional contributions from parents and relatives would build up into a sum which the child could use at 18.

The stated policy objectives of the legislation were to:

- Help people understand the benefits of saving and investing;
- Encourage parents and children to develop the savings habit and engage with financial institutions;
- Ensure that in future all children had a financial asset at the start of adult life; and
- Build on financial education to help people make better financial choices throughout their lives.

1 http://services.parliament.uk/bills/

The idea was first announced in April 2001 and formally launched in the 2003 Budget. The then Chancellor stated that all children born from September 2002 would receive a Government endowment at birth of either £250 or £500 and a similar sum at the age of seven. The Government's contribution would be highest for children from lower income households, in line with the policy aim of 'progressive universalism' i.e. a universal benefit, but one which included progressive elements.

While the idea of a Fund was welcomed in many quarters, including by some welfare organisations and the financial services sector, the introduction of the scheme raised questions about the effectiveness of tackling current inequalities through long-term asset-based projects rather than by simply increasing current benefits. Concerns were also expressed about its complexity and the potential for the redistributive elements to be outweighed by the propensity for wealthier families to take advantage of the option of voluntary additional contributions.

As part of its deficit reduction plans, the new Coalition Government announced that it would pass legislation to end CTF payments.[2] The Government announced that:

- from August 2010 government payments at birth would be reduced and payments at age seven would stop, and
- from January 2011, all payments would stop.

The Government say that a two stage process was necessary in order to reduce expenditure as quickly as possible. The level of some payments, or the actual payment (e.g. the top-up at seven) could be stopped by secondary legislation, but overall eligibility for a payment at some level could only be revoked by primary legislation (for example the starting payments for all children, and the additional payments for children in lower income families).

The *Child Trust Funds (Amendment No 3) Regulations 2010*[3] were debated, and approved, on 20 July.[4] This cancelled the age seven top-up payment; reduced other payments to £50 (from £250); and set a date (April 2011) for the cessation of payments to disabled children. Proposing the changes, the Minister, Mark Hoban, said:

> I realise that some parents will be disappointed by the changes, as will child trust fund providers. Many hon. Members here today will be disappointed, too. Of course, if we had unlimited resources, it would have been possible to continue Government payments into child trust funds, but that is far from being the situation. Instead, the Government have inherited the largest deficit in Britain's peacetime history. Tackling that deficit is the greatest economic challenge that we face and our top priority. That will support the recovery, creating the conditions for businesses to grow and enabling interest rates to be kept lower for longer, but it requires us to take tough decisions, which is what we have had to do on child trust funds. It would have been simply unaffordable to continue to spend more than £500 million a year on them. We therefore believe that it is right to reduce and then stop Government payments. That will save £320 million this year, and more than £500 million in each year in the future.[5]

During the debate no Member criticised the CTF scheme outright; the divide in political opinion was whether this scheme should have been sacrificed for the wider goal of deficit reduction or not. Speaking for the Opposition, David Hanson said:

2 HM Treasury press release 24 May 2010
3 SI 2010/1894
4 Fifth Delegated Legislation Committee, 20 July 2010
5 Ibid, c3

> Let us simply say that there is a difference of opinion between the coalition and the Labour party about how we deal with that debt-reduction plan. The outcome of today's deliberations is that an unfair choice has been made by the Con-Dem Government, and it will hit the poorer people in our community the hardest.[6]

2.1 The Bill

Clause 1 of the current Bill implements the second phase of the cancellation of the scheme: stopping all government payments altogether. It does this by the removal of eligibility to a CTF from children born after 2 January 2011 and from certain children who would otherwise become eligible on or after that date.

Reaction to the end of the scheme has been muted. Some comments from financial services industry suggest that not all providers had worked on the basis that the scheme would last indefinitely anyway. One provider – Family Investments – said it had worked on the basis of recovering start - up costs over a five - year period – so the seven years of the scheme has justified their investment.[7] Another of the big mutual providers – The Children's Mutual – first closed all its CTF funds except its basic stakeholder funds, but subsequently decided to continue accepting new accounts and to manage existing funds.[8] Despite the fact that the CTF earned an estimated £700 million for fund managers, some commented that abolition "was a very sensible way for the government to save money".[9]

Non-industry comment has also been conditionally supportive of the cut. Barnardo's, commenting on child poverty figures, said:

> "We want to see child poverty reduced to 1.7 million by 2015 – the missed 2010/11 target. The Government must now play catch-up. "It can be done. Our Government has made the first step, by vowing to cut child tax credits to middle income families and the Child Trust Fund. "To continue on the right foot all it has to do is invest that money saved in our country's poorest children."[10]

The Child Poverty Action Group's attitude towards the CTF has been at best lukewarm and it has not commented publicly on its demise. In a briefing in 2005, it pointed out that the CTF would not benefit children – until they were 18 and in general:

> Although CTF will benefit some lower income families, we are concerned that families who are at greatest risk of living in severe and persistent poverty are the least likely to be able to contribute to the CTF, so their children will derive little or no financial benefits when they turn 18. The very children who would benefit most from having savings and assets are likely to derive least financial advantage from the scheme.
>
> Given ongoing problems with the administration of tax credits, and the much publicised inadequacies of the Social Fund, we believe that it would be more appropriate and more effective to divert additional funds and administrative time and energies to improving elements of provision that are designed to support low income families rather than on a scheme which many commentators believe will disproportionately benefit higher income families.[11]

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6 Ibid, c10
7 Reported Guardian 25 May 2010
8 Reported Guardian 3 July 2010
9 Reported Guardian 25 May 2010
10 Barnardo's website press release 20 May 2010
11 *CPAG briefing on the Child Trust Fund*, Spring 2005

In submissions by the CPAG to the Chancellor before and after the spending review and emergency Budget, CPAG did not mention the CTF.

A recent report in the Financial Times said that the Coalition Government is considering establishing Child ISAs. These would be similar to their adult equivalent in that they would be tax free, but they would not receive any government payments.[12]

3 The Saving Gateway

The Saving Gateway scheme has been the subject of an extensive pilot project in several areas of the country. Pilot schemes were established in Cambridge, Cumbria, East London, Manchester, Hull and South Yorkshire.

In 2009 the *Saving Gateway Accounts Bill* was introduced to pave the way for a national scheme. The purpose of the scheme was to:

- promote a saving habit among working age people on lower incomes by providing an incentive to save through a government contribution for each pound saved; and

- promote financial inclusion by encouraging people to engage with mainstream financial services.

In brief, eligible savers could open a savings account with an approved provider. Any savings they made, up to a limit, would be 'matched' by contributions from government payable when the account matured. The Saving Gateway was piloted twice between 2002 and 2007 and evaluations of both were broadly supportive of the scheme and its impact on target groups.

Eligibility for Saving Gateway accounts was to be "passported" from certain benefits and tax credits. Eligible people could open accounts only with financial institutions that had been approved to provide Saving Gateway accounts by Her Majesty's Revenue and Customs

The accounts were due to have been available from July 2010. However, the announcement that they would be cancelled was made as part of the June 2010 Budget measures.

As the Explanatory Notes to the Bill make clear, although parts of the Act had already come into force:

> In most respects, the Saving Gateway legislation has not been commenced. No Saving Gateway accounts have been opened; no individuals have been advised that they are eligible for an account and no account providers have been approved to offer Saving Gateway accounts.[13]

3.1 The Bill

Clause 2 of the Bill repeals the *Saving Gateways Accounts Act 2009*. Subsections remove the effect of the Act on social security legislation and legislation in Northern Ireland and references to it in the *Corporation Tax Act 2010*.

[12] *Financial Times* , Child ISA may replace funds, 3 October 2010
[13] Explanatory notes pp11

4 Health in Pregnancy Grant

The Health in Pregnancy Grant is a tax free, lump sum payment of £190 made to expectant mothers ordinarily resident in the United Kingdom. It is paid to women from the 25th week of pregnancy, on condition that they have received maternal health advice from a health professional (a registered midwife, obstetrician or GP). The payment is not means tested and does not depend on National Insurance contributions. The Grant is administered by HM Revenue and Customs, and sits within the broader system of support for pregnant women which includes the Sure Start Maternity Grant and "Healthy Start" vouchers to help with the costs of milk, fruit and vegetables. These other schemes are however targeted on low income families.[14]

A universal payment for pregnant women was first announced in the December 2006 *Pre-Budget Report*. The then Chancellor, Gordon Brown, said that the Government had received "powerful representations" regarding the importance of good nutrition during the final stages of pregnancy.[15] The additional support would recognise "the importance of a healthy diet in the final weeks of pregnancy and the additional costs faced by parents when their children are born."[16] Later statements emphasised that the payment was "...in line with the principle of progressive universalism, delivering support for all pregnant women and more help for those who need it the most."[17]

The Health in Pregnancy Grant was introduced by the *Health and Social Care Act 2008*. Responses to the new payment were mixed. While the Royal College of Midwives and the Royal College of Nursing both welcomed the additional financial support for pregnant women, other organisations questioned whether the new payment was the best way to support nutrition in pregnancy, pointing to evidence indicating that interventions were likely to have greatest effect if delivered before conception and during the first twelve weeks of pregnancy. Both the Conservatives and the Liberal Democrats referred to the Grant as a "gimmick". In response to criticisms, Ministers said that the Grant was not solely about nutrition, but was also meant to tie in with specific health advice at 25 weeks, and to help address general pressures faced by women in the later stages of pregnancy and immediately after giving birth. Conservative and Liberal Democrat members accused the Government of shifting its position on the purpose of the Grant, and argued that insufficient evidence had been presented to show that it would achieve the best outcomes for pregnant women.[18]

The first payments of the Health in Pregnancy Grant were made in April 2009. Annual expenditure was estimated at £145 million (based on Office for National Statistics projections of 780,000 births per year), with additional running costs of around £5 million per year.[19]

4.1 Announcement in the June 2010 Budget

In his Budget Statement on 22 June 2010, the Chancellor of the Exchequer, George Osborne, announced that the Government would abolish the "poorly targeted" Health in Pregnancy Grant.[20]

The scope and depth of the spending cuts announced in the June emergency Budget, and their impact on particular groups, have received much attention. The Chancellor also

14 For further details see pp41-44 of Research Paper 07/81
15 HC Deb 6 December 2006 c308
16 Cm 6984 December 2006, para 5.11
17 *Health And Social Care Bill 2007-08 Explanatory Notes*, Bill 9-EN, para 32
18 See Research Paper 07/81 pp51-54, and Research Paper 08/14 pp20-22
19 *Health And Social Care Bill 2007-08 Explanatory Notes*, Bill 9-EN, para 545
20 HC Deb 22 June 2010 c173

announced three other measures that will impact on pregnant women and families with young children:

- Restricting eligibility to the £500 Sure Start Maternity Grant to the first child only, from 2011-12 (saving £75 million a year);
- Removing the £545 “baby element” of Child Tax Credit (saving £295 million in 2011-12, and around £275 million a year in subsequent years); and
- Not proceeding with the Child Tax Credit supplement (“toddler tax credit”) for 1-2 year olds Labour had planned to introduce from 2012-13 (saving £180 million a year).

Together with the abolition of the Health in Pregnancy Grant, the Government estimates these measures will yield overall savings of just under £2.6 billion over the period 2010-11 to 2014-15, compared with Labour’s spending plans as set out in the March 2010 Budget.[21]

The emergency Budget also announced an increase in the per child amount of Child Tax Credit by £150 above normal indexation in 2011-12, and by a further £60 in 2012-13. Citizens Advice has stated that for families affected by the abolition of the Health in Pregnancy Grant, the CTC baby element and Sure Start Maternity Grants for second and subsequent children, the increase in Child Tax Credit is not enough to make up for the loss of these benefits.[22]

To date, there have been relatively few public responses from organisations specifically regarding the abolition of the Health in Pregnancy Grant. In its response to the Coalition’s NHS White Paper, the Royal College of Midwives said that it was-

> ...disappointed at the decisions to abolish the Health in Pregnancy Grant, which, apart from providing pregnant women with much needed financial support provided an opportunity for midwives to communicate health advice to women and their families.[23]

Responding to the emergency Budget, the Chief Executive of the National Childbirth Trust, Belinda Phipps, said that NCT was “very concerned” that parents trying to raise a family would bear the brunt of the cuts announced:

> At a time when families are trying to make ends meet, the Coalition Government has hit parents particularly hard. Cutting pregnancy and maternity grants, as well as child benefit and tax credits, will make it even more difficult for new parents or those wanting to start a family.
>
> We’re worried that parents, and parents-to-be, have been singled out unfairly, and that the Government should stick to its commitment to making the UK more family friendly.[24]

NCT called on MPs to “speak out against the cuts that hit benefits to pregnant women and their partners, and parents of young children.”[25]

[21] *Budget 2010*, HC 61 2010-11, Table 2.1
[22] Citizens Advice, *The Coalition Budget 2010: Key welfare changes and their impact on low income households*, July 2010, p6
[23] RCM, *Response to the NHS White Paper - Equity and excellence: Liberating the NHS*, October 2010, p4
[24] *NCT response to the Emergency Budget June 2010*, 22 June
[25] *Ibid.*

4.2 The Bill

Clause 3 amends the *Social Security Contributions and Benefits Act 1992* and the corresponding Act in Northern Ireland to remove entitlement to the Health in Pregnancy Grant from women throughout the United Kingdom who reach the 25th week of pregnancy on or after 1 January 2011. Women who satisfy the conditions for entitlement before 1 January will still be able to claim the Grant after that date, provided they claim before their baby is born.

The expected saving from the abolition of the Health in Pregnancy Grant is £40 million in the current financial year (2010-11), and £150 million in each succeeding year.[26]

The *Explanatory Notes* accompanying the Bill state that the Government has considered the human rights implications of the Bill. In particular, consideration was given to whether abolishing Child Trust Funds and the Health in Pregnancy Grant, and not proceeding with the Saving Gateway, might breach Article 1 to the first Protocol (A1P1) of the European Convention on Human Rights (the right to peaceful enjoyment of possessions), either alone or in conjunction with Article 14 of the ECHR (right not to be discriminated against).[27] The *Explanatory Notes* refer to recent case law on the application of these provisions in the social welfare field.[28]

In the Government's opinion, a Health in Pregnancy Grant is not a "possession" for the purposes of A1P1, but it argues that even if it were to be considered a possession, when read along with Article 14, it considers that the decision to abolish the Grant falls within the "margin of appreciation" given to signatories of the Convention in relation to matters of economic or social strategy.[29]

5 Cost savings

The table below summarises the expected cost savings resulting from the abolition of the three schemes dealt with in this Bill.

Financial effects of the Bill

	Financial Year (£ millions)						
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Thereafter
Child Trust Fund	320	500	500	500	500	500	500
Saving Gateway	10	..	75	110	115	90	60
Health in pregnancy grant	40	150	150	150	150	150	150
Total	370	650	725	760	765	740	710

Source: Bill Explanatory notes

Total cumulative savings by 2015-16 are likely to be about £4 billion.

[26] *Explanatory Notes*, Bill 73-EN, para 38
[27] Bill 73-EN, paras 46-48
[28] *Stec and Others v the United Kingdom* [2005] 41 EHRR; *RJM v Secretary of State for Work and Pensions* [2008] UKHL 63. For further analysis see Sarah Clarke, 'RJM v Secretary of State for Work and Pensions', *Welfare Rights Bulletin*, 207, December 2008, pp4-5
[29] Bill 73-EN, paras 48-49