CfBT Education Trust

Funding the Pupil Premium

Fairness for young people and parents

Perspective report

Mark Corney

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Contents

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He became director of MC Consultancy in 1993 specialising in post-11 education and skills policy. He writes regularly for *Education Guardian* and *FE Focus*, and chairs, speaks and organises conferences and policy seminars. Mark is currently Visiting Research Fellow at the UK Commission for Employment and Skills, and policy adviser to the Campaign for Learning.

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Executive summary

The Coalition Government is committed to introducing a pre-16 Pupil Premium for pupils from disadvantaged backgrounds in England from September 2011.

A policy priority

The Coalition Government is committed to introducing a **pre-16 Pupil Premium** for pupils from disadvantaged backgrounds in England from September 2011. The new administration has also promised that a *'significant Pupil Premium will be funded outside the schools budget'*.

In opposition, the Liberal Democrats proposed a Pupil Premium of £2.5bn per year. Meanwhile, the Conservatives supported the principle of a Pupil Premium but did not indicate the level of funding. A pre-16 Pupil Premium of £2.5bn per year would increase funding by the Department for Education for pupils from disadvantaged backgrounds to £6.4bn, although this would be less than current spending on Standard Grants. The Spending Review will be held on 20th October 2010 and the Coalition Government will announce funding for the pre-16 Pupil Premium shortly afterwards.

Raising the funding

This report is primarily about **raising funding** for a pre-16 Pupil Premium rather than distributing funding through a pre-16 Pupil Premium. Discussion of the distribution of funding concentrates on the argument that at 14 the Pupil Premium should be paid to disadvantaged young people attending FE colleges as well as schools. The impact of a pre-16 Pupil Premium on pupils, between schools and between local authorities has been discussed elsewhere.

Furthermore, the report considers how funding for a significant pre-16 Pupil Premium can be raised **fairly** in the context of the fiscal deficit. The means by which the extra revenue for the pre-16 Pupil Premium is raised must be fair to young people and their parents. Social justice requires that both the **means** and the **ends** are fair.

Age and age ranges

Importantly, age and age ranges are crucial to defining funding arrangements. Technical definitions can have critical bearings on funding arrangements and policy decisions about future funding arrangements. For instance, the term pre-16 Pupil Premium refers to children on the school census aged between 4 and 15 although the premium will be paid until pupils leave compulsory education usually after they reach 16. Clearly, the Pupil Premium will not be available to 16–19 year olds in post-compulsory further education and training. Similarly, schools funding refers to provision for pupils up to compulsory education age. 16–19 education and training, by contrast, refers to post-16 further education and training delivered by school sixth forms, FE colleges and training providers.

Age is also important with respect to defining eligibility for welfare benefits paid to parents for bringing up children and young people. Parents with children from birth to the end of compulsory education are eligible for 0–16 family support, including universal child benefit and means-tested child tax credit. Parents with 16–19 year olds in post-16 further education and unwaged training are eligible for 16–19 financial support, including universal child benefit and means-tested child tax credit. Meanwhile, 16–19 year olds in full-time further education are eligible for means-tested Education Maintenance Allowances.

It is the poorest children and families in society who depend upon public services the most.

Protect non-schools budgets

It is the poorest children and families in society who depend upon public services the most. Swingeing cuts to non-school budgets for children up to compulsory education age to fund a pre-16 Pupil Premium would be unfair (see Diagram I).

Diagram I: Potential 0–16 budgets to fund a pre-16 Pupil Premium (2010/11)	
Schools	
Modernising the Teaching Profession	£142m
National Strategies/Curriculum/Behaviour/Gifted & Talented	£1,388m
Other	£138m
Children and Families	
Sure Start (including childcare and nursery education)	£2,427m
Parenting and Families	£54m
Cafcass	£113m
Safeguarding	£11m
Special Educational Needs/Disabilities	£258m
Building Capacity	£22m
Child wellbeing	£383m
Other	£21m
Young People	
Youth Programmes	£281m

Cut child benefit to fund the pre-16 Pupil Premium

Instead, the Coalition Government should look to cut **non-means tested child benefit to fund the pre-16 Pupil Premium** worth £11.8bn per year (see Table I). However, there are a number of ways that this could be done (see Diagram II) including taxing the benefit, restricting payment by age or the number of children, and means-testing payments.

Table I: Child benefit, child tax credit and EMAs

	Type	0–19	0–16 Family Support	16–19 Financial Support
Child Benefit (UK)	Non-means tested	£11.8bn	£10.7bn	£1.1bn (17–19) £1.8bn (16–19) £1.5bn (post-compulsory 16–19)
Child Tax Credit (UK)	Means-tested	£20.7bn	£19.6bn	£0.8bn (16–17) £1.1bn (16–19) £0.9bn (post-compulsory 16–19)
16–19 EMAs (England)	Means-tested	£0.6bn		£0.6bn

On balance, the fairest way to cut the cost of child benefit for children up to compulsory education age to fund a pre-16 Pupil Premium is through means-testing.

Diagram II: Cutting the cost of 0–19 child benefit

Option	Saving
Taxing child benefit	£1.2bn
Restricting child benefit to £37,400 just below 40% tax rate	*less than* £1.2bn
Restricting child benefit to 14 year olds	£3.0bn
Restricting child benefit to the first child	£3.6bn
Restricting child benefit to household income of £50,000	£1.9bn
Restricting child benefit to household income of £45,000	£2.9bn
Restricting child benefit to household income of £40,000	£4.0bn
Total cost	£11.8bn
Freezing child benefit until 2014/15 saves £1.0bn	

Nonetheless, the Coalition Government should reject the proposal to restrict child benefit to children up to age 14. Although potential savings could be £3bn, every family with children aged 14–19 would be affected **irrespective of their household income**. Child benefit would be withdrawn from 3.5m children, and family income would be reduced at a crucial time when 14 and 15 year olds are in the final two years of secondary education, and 2m 16–19 year olds are staying-on in full-time further education and unwaged training. In addition, the Coalition Government should reject restricting child benefit to the first child. Although savings could be approximately £3.6bn, over 4.2m families have more than one child and would lose child benefit payments irrespective of their household income. **Poor families with large numbers of children would lose out.** Compensating payments of child tax credit could be made under both options but this would reduce the level of savings and potentially extend means-testing.

16–19 funding

On no account, however, should 16–19 funding – tuition and financial support – be used to fund a pre-16 Pupil Premium. This would be **unfair** to parents and 16–19 year olds in full-time further education and unwaged training. Instead, cuts to 0–16 child benefit for children up to compulsory education age should fund the pre-16 Pupil Premium. Child benefit is paid UK-wide. The pre-16 Pupil Premium relates to England only. The devolved administrations should be given any savings resulting from cuts to 0–16 child benefit.

Means-test 0–16 child benefit for children up to compulsory education age

On balance, the fairest way to cut the cost of child benefit for children up to compulsory education age to fund a pre-16 Pupil Premium is through means-testing. Restricting 0–16 child benefit to household income of £45,000 per year could save **£2.1bn** in England (see Diagram III). Allowing for savings already expected from freezing child benefit, about **£1.3bn** might be available for a pre-16 Pupil Premium, short of the £2.5bn proposed by the Liberal Democrats but still a significant sum given the fiscal crisis.

Children from higher income families tend to achieve 5 GCSEs A–C, stay-on at 16, achieve good A level grades and go on to university.*

Diagram III: Means-testing 0–16 child benefit for children up to compulsory education age	
Cost of 0–16 child benefit (UK) up to compulsory education age	£10.300m(1)
Savings from restricting payments to household income of £50,000	£1.650m(2)
Savings accruing to England	£1.370m
Savings from restricting payments to household income of £45,000	£2.580m(3)
Savings accruing to England	£2.140m
Savings from freezing pre-compulsory 0–16 child benefit is £875m	

Fairness is the watch-word of the Coalition Government. Nothing could be fairer than using **family support** to wealthier parents in the form of universal child benefit to fund extra **tuition support** for pupils from poorer families. Children from higher income families tend to achieve 5 GCSEs A*–C, stay-on at 16, achieve good A level grades and go on to university. Universal child benefit is paid to parents irrespective of income and whether their children are in state or private education. Non-means tested 0–16 child benefit undermines rather than supports social mobility.

16–19 tuition funding

Cutting tuition funding for 16–19 year olds (see Table II) to fund a pre-16 Pupil Premium would be **unfair**. Savings can be made, however, which should be re-invested to underpin participation, retention and achievement by age 19 in challenging economic conditions.

Table II: 16–19 tuition funding	
Academy School Sixth Forms	£0.2bn
Maintained Sixth Forms	£2.2bn
16–18 FE	£4.0bn
16–18 Apprenticeships	£0.8bn

Indeed, the Coalition Government should recognise that in hard times greater fairness has to be achieved through **levelling down** rather than levelling up. Hence, the DfE should: reduce the national funding rates for school sixth forms in line with 16–18 FE; remove free meals to 16–18 year olds in school sixth forms since their peers in FE do not receive them; and increase class sizes in school sixth forms from 11 to 16 as a first step to class sizes of 25 which exist in sixth form colleges (see Diagram IV).

Diagram IV: Potential savings in 16–19 tuition funding

Area	**Saving**
Reducing national funding rates for school sixth forms in line with 16–18 FE	£38m
Removing free meals to 16–18 year olds in school sixth forms in line with 16–18 FE	£15m
Increase class sizes in school sixth forms from 11 to 16 [savings accruing to England only]	£500m
Total	**£553m**

Abolition of EMAs would be in addition to the proposed freezing of child benefit and restrictions to child tax credit.

16–19 financial support

Cutting financial support for 16–19 year olds (see Table I) to fund a pre-16 Pupil Premium would be **unfair**. Savings in 16–19 financial support should be used to improve participation, retention and achievement, especially from 17 onwards when participation rates fall.

In the first instance, the DfE Review of 16–19 financial support needs to assess the impact of freezing child benefit and restricting child tax credit to household income of up to £26,000 on **middle income families** supporting 16–19 year olds to stay-on in full-time further education and unwaged training. In addition, access to means-tested child tax credit sometimes provides an entitlement to subsidised transport to sixth forms and FE colleges. Many parents could find they have extra transport bills to pay.

Reform post-compulsory 16–19 child benefit

The Coalition Government should reject restricting child benefit to children leaving compulsory education to fund a pre-16 Pupil Premium or cut the deficit. This would be **unfair** to families supporting 16–19 year olds in full-time further education. Although potentially saving £1.5bn (see Table I) up to 1.9m families could lose child benefit irrespective of their household income. Abolishing post-compulsory 16–19 child benefit could place significant financial pressure on family income thereby undermining participation, retention and achievement, especially from age 17 when participation falls.

At present, however, wealthier parents with 16–19 year olds in full-time further education receive child benefit even though their children are likely to stay-on anyway. There is significant **dead weight** in non-means tested post-compulsory 16–19 child benefit. Furthermore, 16–19 year olds from wealthier families are more likely to achieve good A levels and enter university. Non-means tested child benefit is also paid to parents with 16–19 year olds at private schools. The payment of 16–19 child benefit irrespective of household income undermines rather than supports **social mobility**. The case for reforming non-means tested 16–19 child benefit is overwhelming.

Retain 16–19 EMAs

EMAs of up to £30 per week are already means-tested and well targeted on young people from low incomes. Abolishing EMAs to fund a pre-16 Pupil Premium would be **unfair** to poor 16–19 year olds in full-time further education and unwaged training. Abolition of EMAs would be in addition to the proposed freezing of child benefit and restrictions to child tax credit. The consequence could be significant financial hardship for 16–19 year olds from poor families putting at risk post-16 participation, especially from age 17. In addition, 16–19 year olds often use EMAs to pay for transport costs. Cuts to EMAs could reduce potential finance for transport at the same time as many parents find they have to pay full transport costs because they are no longer eligible for means-tested child tax credit.

Means-tested post-compulsory 16–19 child benefit

One option would be to means-test post-compulsory 16–19 child benefit (see Diagram V) and restrict payments to household income of £45,000 per year (see Diagram VI). A rough estimate is that this would save £375m with £310m relating to England. Means-testing is a key element of the present 16–19 financial support system with lower income families claiming means-tested 16–19 child tax credit and students from lower income families claiming means-tested EMAs. Hence, means-tested 16–19 child benefit would be an extension of an already heavily means-tested system.

The Coalition Government is planning to create twelve 14–19 Technical Academies which will be academy schools that can select up to 10% of pupils on ability.

Diagram V: Reforming 16–19 financial support

Option 1: Means-test post-compulsory 16–19 child benefit to household income of £45,000 per year

Option 2: Abolish post-compulsory 16–19 child benefit and increase 16–19 child tax credits

Option 3: Abolish 16–19 child benefit and increase EMAs

Option 4: Create a 16–19 means-tested youth allowance

Diagram VI: Means-testing post-compulsory 16–19 child benefit

Cost of post-compulsory 16–19 child benefit	£1,500m
Savings from restricting payments to household Income of £45,000	£375m
Savings accruing to England	£310m

A second option would be to abolish post-compulsory 16–19 child benefit and make compensating payments through child tax credits. However, this is little different from Option 1. The same amount of funding for 16–19 financial support would be available and means-testing would be extended.

A third option would be to abolish post-compulsory 16–19 child benefit and make compensating payments through Education Maintenance Allowances. The difference in this approach is that funds are transferred from parents to students for 16–19 financial support.

A means-tested 16–19 youth allowance

A more radical option would be to **pool** all the funds from means-tested post-compulsory 16–19 child benefit (£1.2bn), post-compulsory 16–19 child tax credit (£0.9bn) and 16–19 Education Maintenance Allowances (£0.6bn) into a means-tested 16–19 youth allowance. Payments would be made directly to 16–19 year olds in line with HE students. This would represent a complete transfer of 16–19 financial support from parents to students. Placing significant levels of financial support into the hands of 16–19 year olds, albeit conditional on participation in full-time further education and unwaged training, might encourage more young people, especially from age 17, to stay-on and achieve Level 3 qualifications.

A fair Pupil Premium at 14

Schools are not the only providers at 14. They are complemented by FE colleges and training providers. Around 70,000 14 and 15 year olds attend FE colleges on a part-time basis and 4,000 attend on a full-time basis. Most are pupils from disadvantaged backgrounds. In addition, 10,000 14–15 year olds participate on Young Apprenticeships some of which will be pupils from disadvantaged backgrounds. The Coalition Government is planning to create twelve 14–19 Technical Academies which will be academy schools that can select up to 10% of pupils on ability.

The Coalition Government is in danger of entrenching unfairness through the pre-16 Pupil Premium from 14 onwards. **It would be unfair for schools to retain the entire pre-16 Pupil Premium where 14 and 15 year olds spend two or three days per week at FE colleges and training**

The Coalition Government is simultaneously taking forward four key policies which are shaping pre-19 schools policy in the long-term.

providers. The pre-16 Pupil Premium could also create vocational apartheid between 14–19 Technical Academies and FE colleges, with pupils from disadvantaged backgrounds eligible for the pre-16 Pupil Premium if they attend the former but not the latter. In addition, both the Conservatives and the Liberal Democrats supported the idea of full-time FE from age 14 when in opposition. Any large scale expansion of full-time FE from age 14 would bring into question the fairness of a pre-16 Pupil Premium limited to attendance at schools.

Longer term policy development

The Coalition Government is simultaneously taking forward four key policies which are shaping pre-19 schools policy in the long-term. They are: the brigading of all pre-16 disadvantaged funding through a pre-16 Pupil Premium; the potential for all maintained primary and secondary schools to become academies; the existence of the YPLA which can take on the role of directly funding more and more schools that become academies; and the long-term review of pre-16 schools funding. All roads seem to be leading to removing local authorities from control over directly funding pre-16 school provision. The YPLA might well emerge as a national 5–19 funding agency allocating funding to schools and FE colleges on the basis of a national funding formula and national rather than local funding rates.

1. Introduction

In opposition, the Liberal Democrats argued that an extra £2.5bn per year would be needed for a Pupil Premium.

A pre-16 Pupil Premium

The Coalition Government is intending to introduce a Pupil Premium in England to increase funding for pupils from disadvantaged backgrounds from September 2011. Initially for pupils aged 4 to 15, the **pre-16 Pupil Premium** could be extended to early years pupils sometime in the future. The Coalition Government has promised that a *'significant Pupil Premium will be funded outside the schools budget'*.

In opposition, the Liberal Democrats argued that an extra £2.5bn per year would be needed for a Pupil Premium. The Conservatives also supported of the idea of a Pupil Premium but remained unclear about where resources over and above existing public spending would come from. The Spending Review will be held on 20th October 2010. Funding for the pre-16 Pupil Premium will be announced shortly afterwards.

Structure of the report

Part one of the report (Sections 2 to 8) provides the **policy** background against which to discuss options for funding the pre-16 Pupil Premium.

Section 2 summarises the state of the public finances after the Emergency Budget, including the decisions to freeze universal child benefit and scale back means-tested child tax credits from 2011/12. It also considers the implications for DfE as a non-protected department. To aid discussion on the funding of the pre-16 Pupil Premium, Section 3 defines the key categories of public spending on 0–19 year olds, including tuition funding, 0–16 family support and 16–19 financial support. The section also explains how these areas of public spending feature within the categories of Departmental Expenditure Limits and Annually Managed Expenditure.

Section 4 sets out the spending settlement in 2010/11 for schools and for 16–19 publicly funded education and training (school sixth forms, 16–18 FE and 16–18 apprenticeships). Furthermore, the section describes in some detail how public funding for schools and 16–19 participation is distributed. Section 5 goes on to describe the policies and plans of the Coalition Government for schools and 16–19 participation from 2011/12 onwards including the implementation of a pre-16, rather than a pre-19, Pupil Premium. A key caveat made by the Coalition Government is that the overall quantum of public funding for schools and 16–19 participation – including extra resources for the pre-16 Pupil Premium – is subject to the Spending Review.

Section 6 examines the public spending arrangements in 2010/11 for 0–16 family support (including 0–16 child benefit and 0–16 child tax credit) and 16–19 financial support (including 16–19 child benefit, 16–19 child tax credit and Education Maintenance Allowances). Section 7 considers the changes announced in the Emergency Budget from 2011/12 onwards to child benefit and child tax credit, particularly in relation to financial support for 16–19 year olds in full-time further education and unwaged training. Section 8 completes this part of the report by exploring the ongoing debate on the cost of universal benefits and the renewed interest in the build up to the Spending Review in reducing the cost of child benefit yet further to fund spending priorities such as welfare reform. Options for reducing the cost of child benefit include restricting payments to children up to 14 or to the first child.

16–19 funding should be used for 16–19 year olds to maximise participation, retention and achievement in extremely challenging economic circumstances.

Part two of the report (Sections 9 to 12) sets out the principles which should determine how funding for the pre-16 Pupil Premium should be raised so that it is **fair** to young people, their parents, schools and colleges.

Section 9 argues that 16–19 funding – both tuition and financial support – should not be used to fund the pre-16 Pupil Premium. 16–19 funding should be used for 16–19 year olds to maximise participation, retention and achievement in extremely challenging economic circumstances. As a consequence, Section 10 insists that the pre-16 Pupil Premium must be funded out of pre-16 funding. Instead of raiding funding from pre-16 budgets outside the pre-16 school budget, the fairest way to fund the pre-16 Pupil Premium is through cutting **0–16 child benefit**.

Section 11 argues that the pre-16 Pupil Premium must be fair to **disadvantaged** 14–15 year olds enrolled on part-time and full-time courses at FE colleges and participating on Young Apprenticeships, as well as those attending school full-time. Disadvantage at 14 does not stop at the school gate. Finally, Section 12 considers the long-term direction of travel of school and 16–19 participation policy under the Coalition Government. It considers **in the round** the implications of brigading of all funding for disadvantaged pupils under the pre-16 Pupil Premium, the expansion of academy schools, the long-term review of pre-16 schools funding and the role of the YPLA as an agency funding more and more state schools.

2. The fiscal deficit

A key priority of the new administration is to reduce the structural deficit – that part which remains after growth returns – by the end of the Parliament.

The big picture

Cutting quicker and deeper

The fiscal deficit provides the backdrop to current and future public spending on school and 16–19 participation funding, and 0–16 family and 16–19 financial support. The new Coalition Government has decided to cut the **fiscal deficit** more quickly and deeper than the previous Labour administration. The previous Labour government had planned to more than halve the fiscal deficit from £163bn in 2010/11 to £74bn in 2014/15. The Emergency Budget published on the 22nd June 2010 shows that the Coalition Government plans to cut the fiscal deficit to £37bn by 2014/15 (see Table 1).

A key priority of the new administration is to reduce the **structural deficit** – that part which remains after growth returns – by the end of the Parliament. The Coalition Government wishes to protect capital spending to some extent – including on schools and colleges – and so concentrates on the so-called 'cyclically adjusted current budget'. Under Labour, the UK would borrow 1.3% of gross domestic product to support revenue spending by 2014/15. Under the Coalition Government, the structural deficit is to be eliminated and become a surplus of 0.3%.

Table 1: Changes to the fiscal forecast

	Outturn	Estimate	Forecasts				
	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
Surplus on current budget (£ billion)							
March Budget	–48.9	–116.6	–124	–102	–84	–67	–51
Change	–0.4	10.2	10	4	3	3	3
OBR pre-Budget forecast	–49.3	–106.4	–114	–98	–80	–63	–48
Change	–0.4	0.7	4	10	15	23	31
June Budget	**–49.7**	**–105.6**	**–110**	**–88**	**–65**	**–40**	**–17**
Net investment (£ billion)							
March Budget	47.2	50.0	40	29	26	22	23
Change	0.0	–0.3	1	0	0	0	0
OBR pre-Budget forecast	47.2	49.7	41	29	26	22	23
Change	–0.8	–0.6	–2	–2	–2	–2	–2
June Budget	**46.4**	**49.0**	**39**	**27**	**24**	**20**	**21**
Net borrowing (£ billion)							
March Budget	96.1	166.5	163	131	110	89	74
Change	0.4	–10.4	–8	–4	–3	–4	–3
OBR pre-Budget forecast	96.5	156.1	155	127	106	85	71
Change	–0.4	–1.5	–6	–12	–17	–25	–33
June Budget	**96.1**	**154.7**	**149**	**116**	**89**	**60**	**37**

Source: Budget 2010, HM Treasury, 22nd June 2010. (© Crown copyright)

The tax and spending mix

Just a little less than three quarters of the fiscal squeeze by 2014/15 will come from cuts in public spending (£83bn) and the rest from tax increases (£29bn). **The total spending squeeze by 2014/15 across Whitehall is planned to be £83bn** (see Table 2). This is equivalent to the combined budgets of the Department for Education and the Department for Business Innovation and Skills (BIS) in today's terms.

Table 2: Changes to the fiscal forecast

	£ billion					
	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16
Discretionary policy announced at Budget[1]	**8.1**	**15**	**24**	**32**	**40**	
Spending	5.2	9	17	24	32	
Tax	2.8	6	7	9	8	
Spending share of consolidation (per cent)	*65*	*59*	*71*	*74*	*80*	
Policy inherited by the Government	**0.8**	**26**	**42**	**57**	**73**	
Spending[2]	0.0	14	25	39	52	
Tax	0.8	11	17	18	21	
Spending share of consolidation (per cent)	*0*	*56*	*60*	*69*	*71*	
Total discretionary consolidation	**8.9**	**41**	**66**	**90**	**113**	**128**
Spending[3]	5.2	23	42	63	83	99
Tax	3.6	18	24	27	29	29
Spending share of consolidation (per cent)	*59*	*57*	*64*	*70*	*74*	*77*

[1] Including savings in 2010–11 announced before Budget.

[2] Spending reductions against baseline of growing DCL in line with general inflation in the economy in line with Table 4.8 in the ODC pre-Budget forecast and AMC as forecast at Budget including estimated debt interest savings from 2011–12 onwards of £0.5bn, £2bn, £4bn and 7bn.

[3] Baseline as in footnote 2 but amended to 2015–16 using the same methodology, with estimated total debt interest saving of £16bn in 2015–16.

Source: Budget 2010, HM Treasury, 22nd June 2010. (© Crown copyright)

Public spending

Total Managed Expenditure

Overall public spending is called Total Managed Expenditure. TME is divided between Annually Managed Expenditure (AME) and Departmental Expenditure Limits (DEL). Both AME and DEL are sub-divided into resource spending and capital spending (see Diagram 1).

Diagram 1: Total Managed Expenditure

TIME	=	AME	+	DEL
		resource + capital		resource + capital

Departmental Expenditure Limits (DEL) is often referred to as spending on public services.

Annually Managed Expenditure is spending that cannot reasonably be planned over a three-year period. AME is often cyclical and demand-led requiring changes in-year. By comparison, Departmental Expenditure Limits are budgets of departments of state and non-departmental public bodies that can be planned over the three-year period of a typical spending review.

The new Coalition Government inherited £52bn of cuts in public spending by 2014/15 although no specific plans on the split between cuts in AME relative to DEL were inherited. A working assumption has been £8bn cuts in AME and £44bn in DEL. In addition, the new Coalition Government announced extra cuts of £32bn by 2014/15, with £13bn planned to come from reductions in AME and £19bn in DEL. At the time of the Emergency Budget, therefore, the Coalition Government planned to cut DEL by £63bn by 2014/15.

AME

Most AME is resource spending rather than capital spending. The main categories of resource AME are: social security benefits (£186.5bn in 2014/15); tax credits (£27.1bn); net public service pensions (£8.9bn); national lottery (£0.7bn); BBC domestic services (£4.2bn); net expenditure to the EU (£10.3bn); local government financed expenditure (£30.5bn); debt interest (£66.5bn) and accounting adjustments (£24.0bn). Specific reductions in planned AME by 2014/15 are:

- £5.6bn in social security benefits of £5.6bn which covers the freezing of universal child benefit, saving £1bn
- £3.2bn in tax credits including a net increase in child tax credits of around £1.1bn
- £0.5bn in net public service pensions
- £4.2bn in lower debt interest.

DEL

Departmental Expenditure Limits (DEL) is often referred to as spending on **public services**. It covers both revenue and capital spending on programmes and administration by Whitehall departments and local government. This includes spending on hospitals, schools and the police.

Big cuts in DEL spending on education and skills from 2011/12

Protecting health and overseas aid

The Coalition Government has decided to protect departmental spending on health and overseas aid from 2011/12. Given that health constitutes over a quarter of all DEL spending, the implication is that every other Whitehall department would face real terms cuts of 25% by 2014/15.

Defence and education

In his emergency budget speech on the 22nd June 2010, the Chancellor of the Exchequer stated that the Treasury recognised the financial pressures faced by defence and education. It is fair to assume that the reference to 'education' relates to DfE rather than BIS. Certainly the reference covers 3–15 schools funding by DfE and possibly 16–19 core participation (including 16–18 FE) given the Coalition Government's decision to protect 16–18 school and 16–18 college budgets in 2010/11.

A working assumption is that both Defence and DfE schools and 16–19 participation funding will face a real terms cut of 10% by 2014/15. The Institute for Fiscal Studies calculates that this implies a real terms cut of 33% in all other departmental expenditure (see *Public services: serious cuts to*

Clearly, schools and 16–19 core participation funding could face 10% real terms cuts in front line funding.

come, 23rd June 2010) including remaining DfE spending such as children and families, as well as the entire budgets of BIS and DWP (Department for Work and Pensions).

Further AME savings to protect DEL

Clearly, schools and 16–19 core participation funding could face 10% real terms cuts in front line funding. Recognising, however, that shielding defence and 3–19 education implies real terms cuts of 33% in other departments, the Coalition Government has indicated that further savings in annually managed expenditure could reduce the scale of the cuts in non-protected DELs. Final decisions about whether further savings in AME can offset cuts in non-protected DELs will be announced in the Spending Review.

3. Key categories of public spending on 0–19 year olds

Parents with children up to age 16 in the UK are entitled to universal child benefit and means-tested child tax credits.

Tuition, 0–16 family support and 16–19 financial support

Tuition funding

In England, the Department for Education is responsible for expenditure on pre-19 publicly funded education and training.

Spending on pre-19 publicly funded education and training includes early years education, primary and secondary schools, school sixth forms, academy sixth forms, 16–18 FE and 16–18 apprenticeships.

Spending on pre-19 publicly funded education and training can take the form of resource expenditure and capital expenditure.

0–16 Family support

Parents with children up to age 16 in the UK are entitled to universal child benefit and means-tested child tax credits. They are paid by HMRC (Her Majesty's Revenue and Customs).

16–19 Financial support

Parents with 16–19 year olds in full-time further education and unwaged training in the UK are entitled to universal child benefit and means-tested child tax credit. Once again, these payments are made by HMRC.

In addition, 16–19 year olds in full-time further education and unwaged training in England are eligible for means-tested Education Maintenance Allowances and learner support funds. The DfE is responsible for expenditure on EMAs and learner support funds.

Where spending on pre-19 year olds features in DEL/AME

Broad principles

DEL and AME are split between resource expenditure and capital expenditure.

Resource expenditure on pre-19 publicly funded education and training counts as resource DEL, forming part of the DfE's departmental expenditure limit.

Resource expenditure on 0–16 family support in the form of 0–16 child benefit and 0–16 child tax credit counts as resource AME. Resource expenditure on 16–19 financial support in the form of 16–19 child benefit and 16–19 child tax credit also counts as resource AME.

Resource expenditure on financial support for 16–19 year olds in the form of EMAs and learner support funds counts as resource DEL.

0–16 year olds

0–16 Revenue tuition funding

Diagram 2 sets out revenue tuition and family support funding for 0–16 year olds. In 2010/11, non-capital 3–16 schools spending will be in excess of £38bn (see *Departmental Report, DCSF, May 2009*). This funding is classed as resource DEL by the Treasury.

Diagram 2: Revenue Tuition and Family Support Funding for 0–16 year olds

DEL + **AME**

resource – capital | **resource – capital**

Tuition

	England
3–16 Schools Funding	
• Pre-16 Academy Schools	£1.7bn
• Dedicated Schools Grant	£31.9bn
• Standard Grants	£3.8bn
• National Strategies	£1.4bn

Family Support

	UK	England
0–16 Child Benefit	£10.7bn	£8.9bn
0–16 Child Tax Credit	£19.9bn	£16.6bn

0–16 Revenue family support

Parents with children under 16 in the UK are eligible for universal child benefit and means-tested child tax credit. Both, however, are classed as AME. Estimating the cost of child benefit within family support (0–16) and financial support (16–19) is complicated to some extent because 16 is common to both and many 16 year olds are still in compulsory secondary education. A rough estimate is that the cost of child benefit for 16–19 year olds is £1.8bn per year and £1.1bn per year for 17–19 year olds (calculations by author using data contained in *Child Benefit Statistics, HMRC, August 2009, 2010*). Consequently, the cost of 0–16 child benefit in 2010/11 is estimated to be £10.7bn.

Parents with children under 16 in the UK are eligible for means-tested child tax credit. In 2007/08, child tax credit payments totalled £20.7bn (see *Table 1, Child Benefit, Child Tax Credit and Working Tax Credit: Take-up Rates 2007/08, HMRC, 2010*). In 2004/05, it was estimated that £1.8bn was spent on child tax credits for 16–19 year olds (*Written Answer, House of Commons, 21st July 2007*). In 2007/08, expenditure on child tax credit where the age of the youngest child was 16 or over was £1.1bn (see *Table 8, Ibid, Take-up Rates 2007/08, HMRC, 2010*). Once again, however, there is the issue of the cost of child tax credit for 16 year olds and payments linked to 0–16 family support and 16–19 financial support. This report assumes that 17–19 child tax credit is £0.8bn (calculation by author). As a consequence, the cost of 0–16 child tax credit in 2010/11 is approximately £19.9bn.

0–16 Revenue funding in the round

When 0–16 revenue funding for tuition and family support is considered in the round, total public spending on AME and DEL is close to £70bn.

16–19 year olds

16–19 Revenue tuition funding

Diagram 3 sets out revenue tuition funding for 16–19 year olds in England. This is all classed as resource DEL. The largest element of 16–19 revenue tuition funding is 16–18 FE (£4.0bn).

Diagram 3: Revenue Tuition and Financial Support Funding for 16–19 year olds

DEL + **AME**

resource – capital | **resource – capital**

Tuition

	England
Academy School Sixth Forms	£0.2bn
Maintained Sixth Forms	£2.2bn
16–18 FE	£4.0bn
16–18 Apprenticeships	£0.8bn
Financial Support	
Education Maintenance Allowances	£0.6bn
Hardship/Other 16/18 Funds	£0.1bn

Financial Support

	UK	England
17–19 Child Benefit	£1.1bn	£0.9bn
17–19 Child Tax Credit	£0.8bn	£0.7bn

NB: 16–19 year olds in full-time further education and unwaged training

16–19 Revenue financial support

The main funding streams for 16–19 financial support are universal child benefit and means-tested child tax credit. The estimates in Diagram 3 are for 17–19 child benefit and 17–19 child tax credit before the changes announced in the Emergency Budget. Both 17–19 child benefit and 17–19 child tax credit score as resource AME and are available UK-wide.

Meanwhile, the main form of financial support paid directly to 16–19 learners in further education and unwaged training in England are Education Maintenance Allowances (currently £0.6bn). EMAs are funded by DfE and are classed as resource DEL. In addition, hardships funds and other support are available to 16–18 year olds (£0.1bn) funded by the YPLA and distributed by schools and colleges. 16–18 learner support funds are also classed as resource DEL.

16–19 Revenue funding in the round

When 16–19 revenue funding for tuition and financial support is considered in the round, public spending on AME and DEL is close to £10bn.

4. School and 16–19 participation funding in 2010/11

An early decision by the new Coalition Government was to protect revenue funding for schools and 16–19 participation in 2010/11…

Overall funding

In England, the Department for Education is responsible for tuition funding of 3–16 year olds in state education and 16–19 year olds in publicly funded education and training.

An early decision by the new Coalition Government was to protect **revenue funding** for schools and 16–19 participation in 2010/11 (see *Government announces £6.2bn of savings in 2010–11, Press Release, HM Treasury, 24th May 2010*). 16–19 participation funding includes revenue spending for academy sixth forms, maintained sixth forms, 16–18 FE and 16–18 apprenticeships.

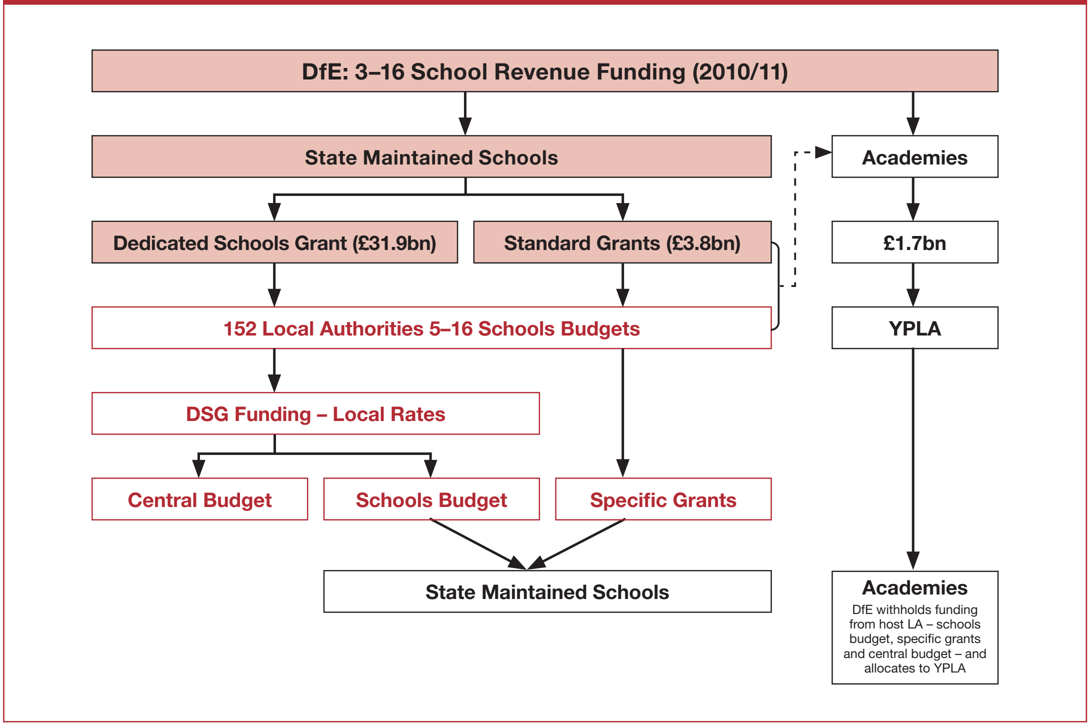
In addition, the new government has retained the funding mechanisms and methodologies for distributing 3–16 revenue funding for schools in 2010/11. By contrast, more significant changes have been announced for 16–19 revenue funding in 2010/11.

3–16 Schools funding

From DfE to local authorities

DfE allocates 3–16 schools revenue funding via a Dedicated Schools Grant (DSG) and Standard Grants (SGs) (see Diagram 4). Around 90% of 3–16 schools funding is via DSG (£31.9bn in 2010/11) and 10% via specific grants (£3.8bn in 2010/11).

Diagram 4: DfE allocates 3–16 schools revenue funding via a DSG and SGs



Specific Grants are calculated by DfE by appropriate formula and paid in full by local authorities to each school.

The Dedicated Schools Grant is **ring-fenced**. Local authorities must spend their DSG allocation on 'education'. They can spend more but cannot spend less. The Dedicated Schools Grant in 2010/11 will be distributed on a **Spend-Plus** model. The 'spend' element gives each local authority the same basic increase per pupil over their level of DSG per pupil for the previous year. The 'plus' element is top-ups earmarked for ministerial priorities.

The DfE uses a general formula to calculate the DSG for each local authority (see Diagram 5). The basic entitlement consists of a minimum level of funding per pupil and a minimum amount of funding for additional educational needs since every local authority is assumed to have a certain amount of AEN. At the same time, specific funding exists for pupils with additional educational needs, high cost pupils, sparsity (which takes into account costs faced by small schools) and area cost adjustments reflecting the higher cost of teachers in certain areas such as London.

Diagram 5: General formula calculation

Local authority funding = Basic Entitlement
+
Additional Educational Needs
+
High Cost Pupils
+
Sparsity
+
Area Cost Adjustment

Specific Grants are calculated by DfE by appropriate formula and paid in full by local authorities to each school. These grants include the School Standards Grant (£1.7bn) and Other Standards Funds (£2.2bn), with the latter encompassing the School Development Grant, the School Standards Grant (personalisation) and the Ethnic Minority Achievement Grant.

According to DfE, notionally, there is about £3.85bn already in the school system for deprivation – £3bn in the DSG and £0.85bn in specific grants (see *Question and Answer Brief, School Funding Consultation for 2011/12, DfE, July 2010*). This is equivalent to 10% of DSG and Specific Grants.

From local authorities to maintained schools

Local authorities split their DSG allocation between a Central Budget and a Schools Budget. Administration costs, school transport and funding for pupils with high level special needs are funded out of the Central Budget although the proportion of DSG allocated to the Central Budget is curbed to some extent by DfE regulations. It would be more accurate to call DSG a Pupil Budget because not all funding is spent on schools.

Importantly, however, once local authorities receive their DSG allocation they can use their own formula to distribute to schools. As a consequence, there are 152 local authority formulae for distributing DSG. Although they broadly mirror the national funding formula, considerable variations exist including approaches to the funding of Additional Educational Needs. For instance, many local authorities will use a deprivation index rather than Free School Meals (FSM). Equally, local authorities can vary funding rates between primary and secondary schools. In short, a system of **local rates** rather than national rates applies to 3–16 schools funding (see Diagram 4).

Overall, each state maintained school receives a mix of delegated DSG (once an amount is deducted for the Central Budget by the local authority) and Standard Grants as determined by DfE.

3–16 Academy schools funding

3–16 funding to academy schools is funded by the Young People's Learning Agency rather than local authorities. DfE withholds from the host local authority in which the academy is located the same amount of DSG it would have received if the school had maintained status. Critically, the amount withheld includes a proportion of the Central Budget which would have been used to support the school if it had maintained status. Specific Grants allocated to academies by DfE are also paid by the YPLA.

16–19 Core participation funding

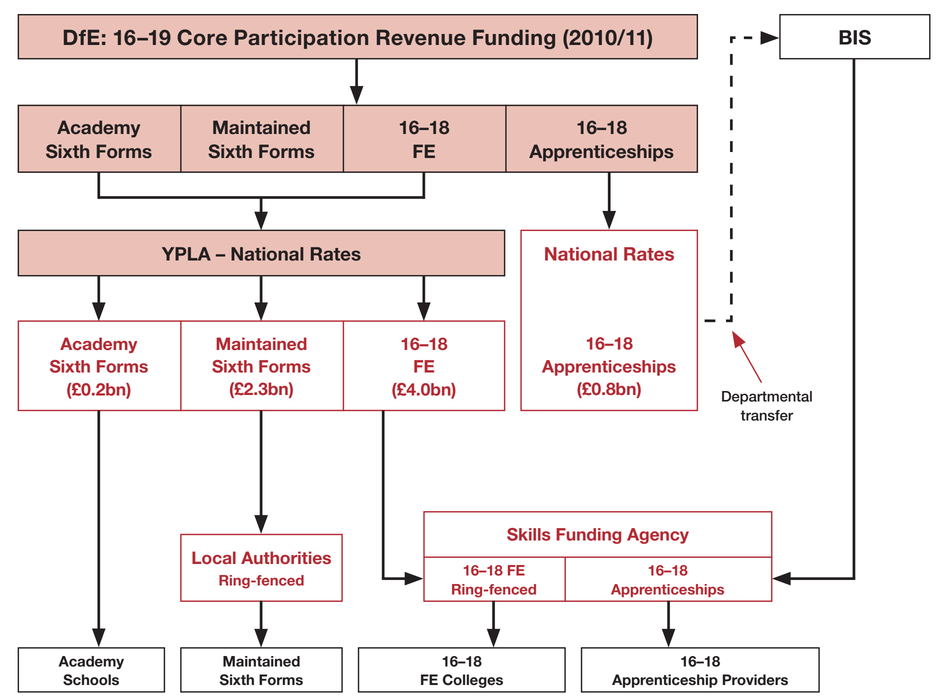
From DfE to YPLA

DfE **revenue** funding for 16–19 core participation covers academy sixth forms, maintained sixth forms, 16–18 FE and 16–18 apprenticeships. Unlike 3–16 school funding, 16–19 funding is based on **national rates** rather than local rates (see Diagram 6). Funding for three funding streams, academy sixth forms (£0.2bn), maintained sixth forms (£2.3bn) and 16–18 FE (£4.0bn) is the responsibility of the YPLA.

From YPLA to providers

In common with the previous Labour administration, the Coalition Government has confirmed that the YPLA will be responsible for academy sixth form funding and make payments directly

Diagram 6: 16–19 Funding based on National Rates



In common with the previous Labour administration, the Coalition Government has confirmed that the YPLA will be responsible for academy sixth form funding and make payments directly to academy schools.

to academy schools. By contrast, the new government has decided that the YPLA, rather than 152 local authorities, will be the budget holder for school sixth form and 16–18 FE. The YPLA will continue to make a ring-fenced allocation for maintained sixth forms to local authorities which in turn must devolve the full amount to individual schools. The YPLA will also allocate the ring-fenced 16–18 FE budget directly to individual general FE and sixth form colleges although actual payments will be made by the Skills Funding Agency (SFA). **Virement** between the 16–18 FE and adult FE budget by the SFA is prohibited.

16–18 Apprenticeships: from DfE to BIS

DfE funds 16–18 apprenticeships. A departmental rather than a YPLA transfer is made to the Department for Business Innovation and Skills (BIS). In turn, BIS devolves 16–18 apprenticeship funding to the Skills Funding Agency which pays apprenticeship providers on national rates. Virement between the 16–18 apprenticeship budget and the 19+ adult apprenticeship budget by the SFA is not allowed although under spends in the former can be used to expand the latter.

16–18 Funding formula

The 3–16 schools funding system funds pupils: the 16–18 funding system funds courses. The 16–18 funding formula covers type of provider, course volume, course type, student characteristics, location and institutional success rates (see Diagram 7).

Diagram 7: 16–18 Funding Formula

£ = (NFR x SLN x PF) + ALS

NFR: National Funding Rates

SLN: Standard Learner Numbers (Guided Learner Hours/450)

PF: Provider Factor – Programme
- Disadvantage
- Area Cost
- Success Rate
- Residential

ALS: Additional Learner Support

In 2010/11, the national funding rate for schools sixth forms is £3,007 per standard learner number (SLN) compared to £2,920 for 16–18 FE. This represents a 3% funding gap between maintained sixth forms and 16–18 FE. SLNs represent the volume of provision and are calculated as the total number of guided learning hours undertaken by a student divided by 450 (which is the definition of a full-time course).

The provider factor reflects a range of indicators specific to each school or college including the incidence and severity of disadvantage. The disadvantage uplift reflects the area where the learner lives in terms of income, employment, housing and crime; the specific characteristics of the learner including mental health problems, asylum seekers and refugees, or those in supported accommodation. Finally, there is Additional Learner Support. This is assessed on a per student basis. In common with the 3–16 schools funding system, two elements of deprivation funding in the main funding formula also exist in the 16–18 funding system, namely the Disadvantage Uplift as part of the Provider Factor and Additional Learner Support.

5. School and 16–19 participation funding from 2011/12

To ensure that funding through the premium is clearly identifiable and can be easily targeted at relevant pupils, the Government is intending to distribute the premium as a separate grant outside of DSG.

4–16 Schools funding

DSG and standard grants

The new Coalition Government has decided to limit the number of changes to the methodology for allocating DSG for 2011/12. The 'spend-plus' system will continue. For 2011/12, the Government intends to mainstream a number of the specific grants into DSG including the Schools Standards Grants (£1.7bn), the School Development Grant and the School Standards Grant (personalisation).

Pre-16 academy school funding

As part of the discussion with stakeholders for 2011/12, the government is reviewing the methodology for funding academies. Critical to the review is the calculation of the Local Authority Central Services Equivalent Grant (LACSEG). The grant needs to reflect the central services of local authorities which academy schools no longer require, as well as the central services of local authorities academy schools still require, especially special educational needs (see *Paragraph 74, Consultation on school funding 2011/12: Introducing a pupil premium, DfE, July 2010*). The grant varies between local authorities because the scope and cost of services vary between local authorities. The grant is calculated by the YPLA rather than local authorities (see *Academy Funding: Preliminary Advice on Funding Maintained Schools Considering Conversion to Academies, DfE, 2010).*

A Pupil Premium grant for 4 to 15 year olds

The reason for retaining the 'spend-plus' system and limiting changes to DSG in 2011/12 is to ensure the **smooth introduction** of the Pupil Premium (see *Consultation on school funding 2011/12: Introducing a pupil premium, DfE, July 2010*). The Pupil Premium is a flagship education policy of the new Coalition Government. The premium will support the attainment of disadvantaged pupils up to the age of 16 and include 4 to 15 year olds on the school census. The Government is exploring the option of extending the pre-16 Pupil Premium to early years pupils in the future. To ensure that funding through the premium is clearly identifiable and can be easily targeted at relevant pupils, the Government is intending to distribute the premium as a separate grant outside of DSG. The **4–15 Pupil Premium Grant will be available from September 2011**.

According to a DfE consultation paper on school funding *'The grant will be paid to local authorities based on figures from the previous January school census. Conditions of grant will require local authorities to pass it on in its entirety to maintained mainstream schools using specific defined per pupil amounts, for every relevant pupil in years from Reception to Year 11 (4–15 year olds on the census). In the case of Academies, the Young People's Learning Agency (YPLA) will pay the grant at the same level as other schools within a local authority area.'* (DfE, July 2010).

In 2010/11, there are two principal sources of funding for disadvantaged pupils – the DSG and Standard Grants. Within DSG there are also two sources of funding, namely additional educational needs within the Basic Entitlement for all pupils and a separate AEN factor. From 2011/12, the Coalition Government is planning a third source, a 4–15 Pupil Premium Grant (see Diagram 8 on page 24).

Essentially, the Coalition Government is proposing a new guaranteed unit of funding for deprived pupils.

Diagram 8: Sources of funding for disadvantaged 4–15 year old pupils

DSG + Standard Grants + Pupil Premium Grant

DSG → Basic Entitlement

DSG → Additional Educational Needs

At present, the amount allocated to local authorities and schools in total for each deprived pupil comes from DSG and Standard Grants plus, where relevant, the application of an Area Cost Adjustment. Consequently, the amount of funding per deprived pupil varies between local authorities and schools. The role of the proposed pre-16 Pupil Premium is to ensure that the amount allocated to each local authority and each school is the same across the country, subject to an Area Cost Adjustment.

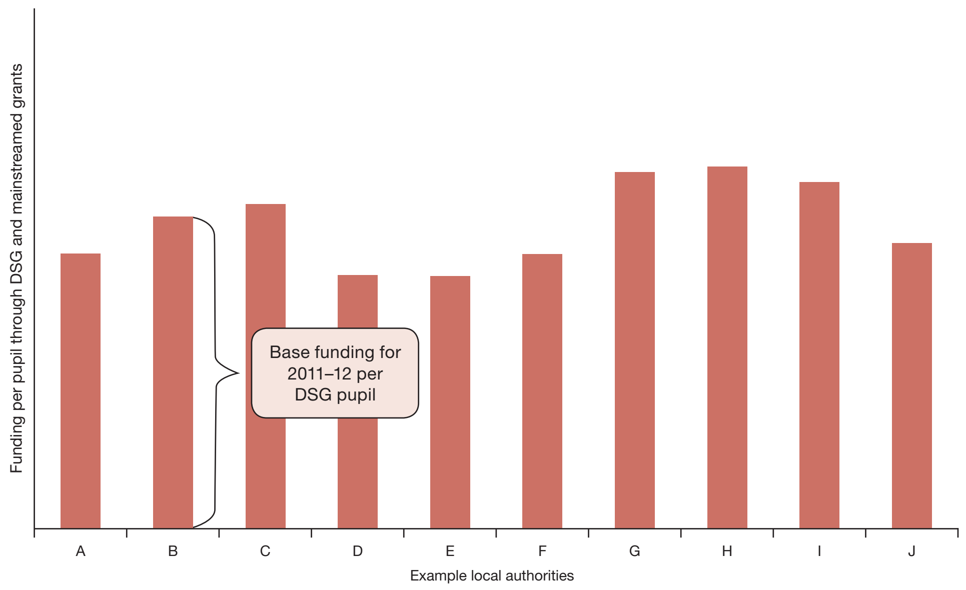
Essentially, the Coalition Government is proposing a **new guaranteed unit of funding** for deprived pupils. **Existing funding** for deprivation funding for each local authority will be an amalgam of deprivation funding within DSG (both the element within the basic entitlement and the separate AEN factor) and Standard Grants which could be mainstreamed into DSG from 2011/12. The **gap** between the new guaranteed unit of funding and existing funding for each local authority will be made up of the Pupil Premium. This will ensure that over time there is the same amount of funding for the same deprived pupils across the country (see Charts 1, 2 and 3). The only source of variation will be the Area Cost Adjustment. **Even so, it will be left to each school to decide how to use funds from the proposed pre-16 Pupil Premium Grant.** Extra funding could be spent on disadvantaged pupils and then again it could not.

Overall quantum of funding

DfE spending on 3–16 school funding is classed as DEL including DSG, Standard Funds and the proposed 4–15 Pupil Premium Grant. Decisions on the mainstreaming of Standard Funds into DSG, the **overall quantum** of funding for the DSG, remaining Standard Funds and the value of the Pupil Premium Grant from 2011/12 are all subject to the Spending Review (see *Consultation on school funding 2011–12: Introducing a pupil premium, July 2010*).

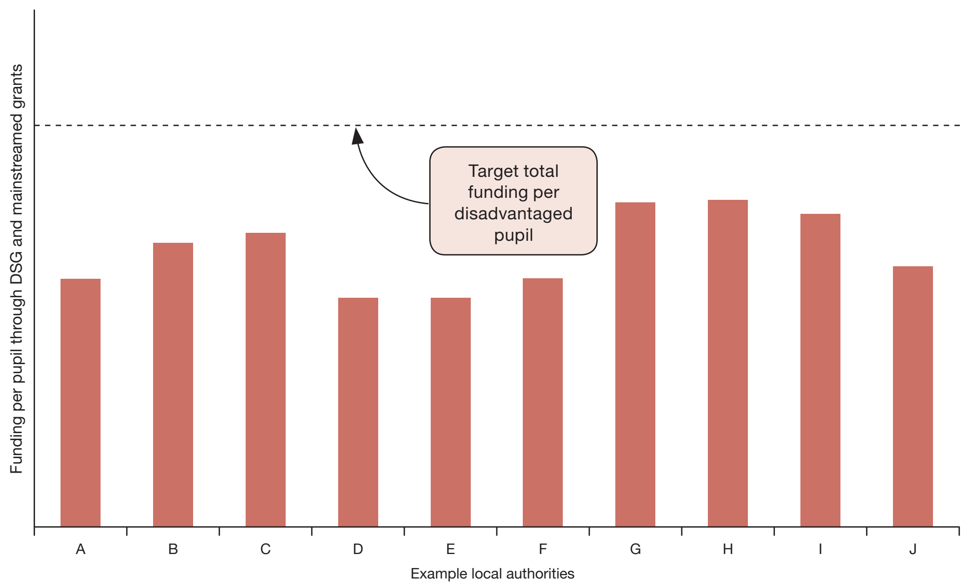
The overall quantum of 3–16 schools funding will in part be determined by the level of funding for the 4–15 Pupil Premium Grant. In opposition, the Liberal Democrats proposed an extra £2.5bn for a Pupil Premium for 5–19 year olds. In government, the Conservatives and the Liberal Democrats agreed *'a significant premium for disadvantaged children from outside the schools budget'* (see *The Coalition: Our Programme for Government, June 2010*). A critical issue is whether DfE will receive extra support from the Treasury for the 4–15 Pupil Premium or whether some or all of the extra support will have to be met from within DfE budgets but outside the 3–16 schools budget, such as Sure Start (£2.4bn) and Youth Services (£0.2bn).

Chart 1: New Guaranteed Unit of Funding for 2011–12



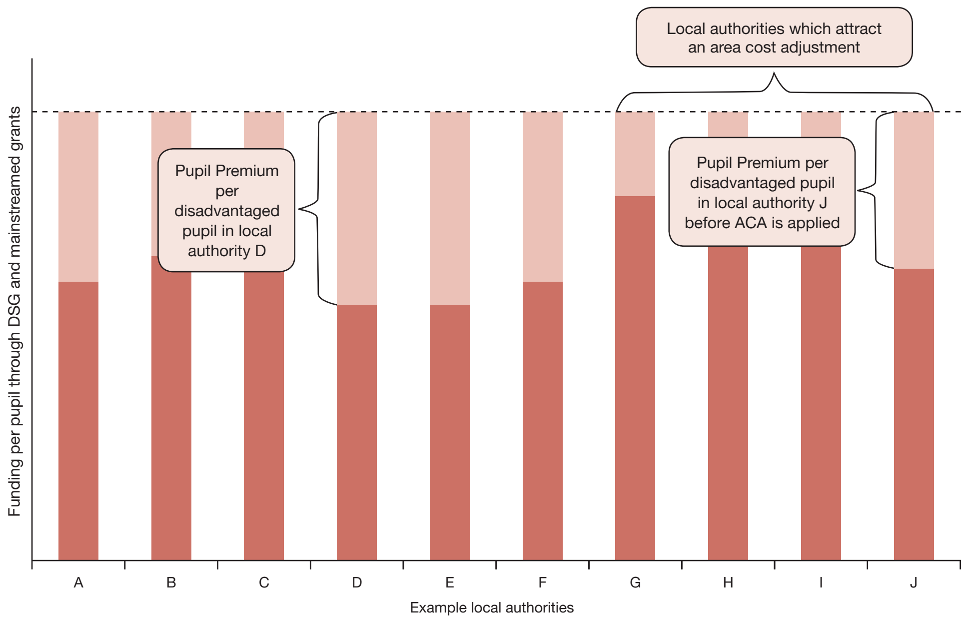
Source: Chart 1, Consultation on school funding 2011–12: Introducing a Pupil Premium, DfE, July 2010. (© Crown copyright 2010, Department for Education)

Chart 2: Derive a target level of funding per disadvantaged pupil based on quantum over a defined period and number of disadvantaged pupils



Source: Chart 2, Consultation on school funding 2011–12: Introducing a Pupil Premium, DfE, July 2010. (© Crown copyright 2010, Department for Education)

Chart 3: Pupil Premium brings funding to same target level for disadvantaged children in all local authorities



Source: Chart 3, Consultation on school funding 2011–12: Introducing a Pupil Premium, DfE, July 2010. (© Crown copyright 2010, Department for Education)

16–19 participation funding

No premium for 16 to 19 year olds

Before the general election, the Liberal Democrats had proposed that the Pupil Premium should cover 16–19 year olds in **schools and colleges** (see *Paragraph 2.3.8, Equity and Excellence: Policies for 5–19 Year Olds in England's Schools and Colleges, March 2009*). The new Coalition Government has decided that the Pupil Premium should apply initially to 4–15 year olds with the prospect of covering early years' education some time in the future. A pupil premium for disadvantaged 16–19 year olds in schools and colleges will not apply in 2011/12.

Overall quantum of funding

Funding for 16–19 participation, including academy sixth forms, mainstream sixth forms, 16–18 FE and 16–18 apprenticeships from 2011/12 is subject to the Spending Review. A critical issue is whether 16–19 participation funding, which was protected in 2010/11 and includes school sixth forms (£2.3bn); academy sixth forms (£0.2bn), 16–18 FE (£4.0bn) and 16–18 Apprenticeships (£0.8bn) will be cut to fund the 4–15 Pupil Premium Grant.

6. 0–16 family support and 16–19 financial support in 2010/11

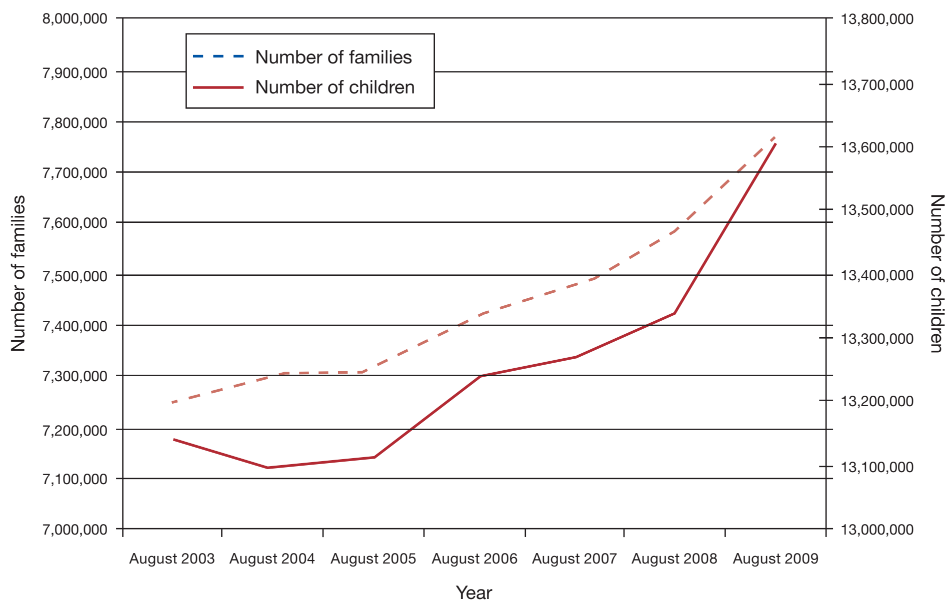
Child benefit is paid to parents and guardians for children from birth to 19.

0–16 Family support

Child benefit

In 2009, there were approximately 8m families with 14m children in the UK. Child benefit is paid to parents and guardians for children from birth to 19. In 2009, over 7.7m families had 13.6m children in receipt of child benefit (see Figure 1). The take-up rate of universal child benefit in 2007/08 was 97% (see *child benefit, child tax credit and working tax credit: Take-up Rates – 2007/08, HMRC, 2010*). In 2010/11, parents and guardians receive £20.30 per week for the first child and £13.40 for subsequent children irrespective of gross household income.

Figure 1: The number of families and children in receipt of Child Benefit, 2003 to 2009



Source: Child Benefit Statistics. August 2009, HMRC, 2010. (© HMRC Crown copyright)

A rough estimate is that 6.7m families have 11.6m children aged 0–16 receiving child benefit in the UK. The estimated cost of 0–16 child benefit in 2010/11 is £10.7bn. The take-up of child benefit for 0–16 year olds could be higher than the average of 97%. This is because at 16, payment of child benefit becomes conditional upon participation in full-time further education and unwaged training and the break could result in lower take-up for 16–19 child benefit payments.

Child tax credit

Child tax credit is a means-tested benefit. On April 1st 2010, 5.8m families in the UK containing 10.2m children were receiving child tax credits (see *Table 2.1, Child and working tax credits statistics, April 2010, HMRC, 2010*). This means 70% of all families and 73% of all children in the UK are in receipt of child tax credit. The take-up rate of child tax credit by families in 2007/08 was 81% but in terms of eligible expenditure the take-up rate was 89% (see *Table 1, child benefit, child tax credit and working tax credit: Take-up Rates – 2007/08, HMRC, 2010*).

Child tax credits sit within working tax credits and are extremely complicated (see Figure 2 and Figure 3 below). In 2010/11, before the changes in the Emergency Budget kick-in, parents are entitled to a payment per child and a family element payment irrespective of the number of children they have. The child element (£2,300 in 2010/11) and the family element (£545 in 2010/11) will be paid

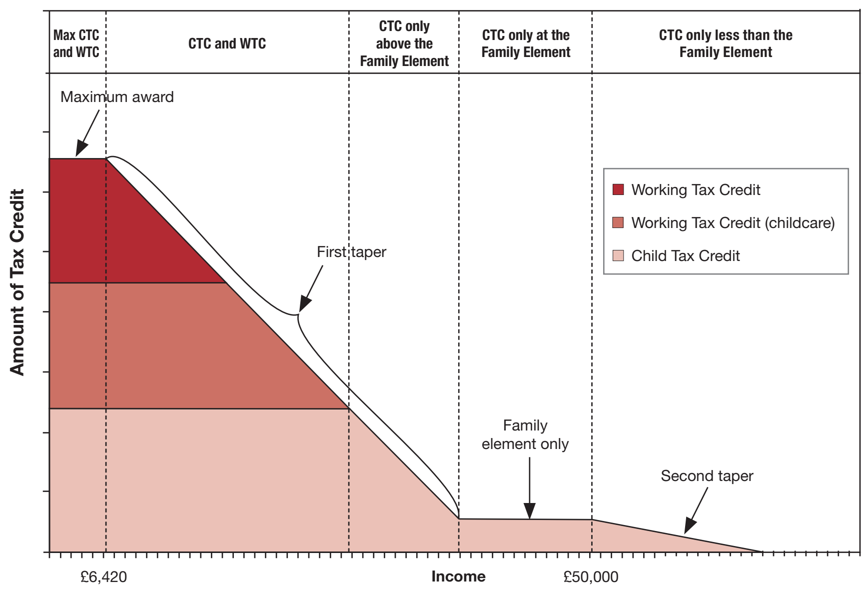
Figure 2: CTC and WTC elements and thresholds

Annual rate (£), except where specified

	2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10
Child Tax Credit							
Family element	545	545	545	545	545	545	545
Family element baby addition[1]	545	545	545	545	545	545	545
Child element[2]	1,445	1,625	1,690	1,765	1,845	2,085	2,235
Disabled child additional element[3]	2,215	2,215	2,285	2,350	2,440	2,540	2,670
Severely disabled child additional element[4]	865	890	920	945	980	1,020	1,075

Source: Child and working tax credit statistics: April 2010, HMRC 2010. (© HMRC Crown copyright)

Figure 3: Child and Working Tax Credit Entitlement



Source: Child and working tax credit statistics: April 2010, HMRC 2010. (© HMRC Crown copyright)

Parents and guardians receive £20.30 per week for the first child and £13.40 for subsequent children aged 16 to 19.

until gross household income reaches around £26,000. Between £26,000 and £40,000 the child element is tapered down so that the family element only remains (£545). Between £40,000 and £50,000 the full amount of the family element remains payable. Between £50,000 and £58,000 the family element is tapered to zero. Take-up of the family element only (£545 per year) was 71% by number of families and 72% by expenditure in 2007/08.

In 2008/09, the cost of child tax credit for families where the youngest child is below 16 was £19.6bn.

16–19 Financial support

Child benefit

A rough estimate is that 1m families have 1.97m children over 16 in receipt of universal child benefit in the UK. At 16, however, payment of child benefit becomes conditional upon participation in full-time further education and unwaged training. Key groups of 16–19 year olds not eligible for child benefit include those in part-time further education, waged apprenticeships, jobs with training, jobs with employer funded training, and those not in employment, education and training. Parents and guardians of nearly a third of 16–18 year olds, for example, are not eligible for child benefit (see Table 3). Falling participation in full-time further education and unwaged between 16 and 17, and then 17 and 18 explains why child benefit claims are higher at 16 than 17 and 18 despite the current larger cohorts at 17 and 18. Only 77,000 19 year olds are in receipt of child benefit.

Table 3: Eligible participation in education and training by 16–18 year olds in 2008 and 2009

	2008		2009		Difference +/–	
Full-Time Education	64.7		68.0		+3.2	
Other Education and Training	4.6		5.6		+1.0	
Work-Based Learning	6.6		6.4		–0.2	
Advanced Apprenticeships		1.6		1.5		–0.1
Apprenticeships		3.9		3.7		–0.2
E2E		1.1		1.1		
Other		0.1		0.1		
Total Participation	**75.8**		**79.7**		**+3.9**	
Employer Funded Training	3.9		3.0		–0.9	
Jobs without Training	10.1		8.1		–2.0	
NEET	10.2		9.2		–0.9	
ILO Unemployed		6.4		6.2		–0.2
Economically Inactive		3.8		3.0		–0.8
Total Non-participation	24.2		20.3		**–3.9**	
Number of 16–18 year olds	2,017,500		1,989,900			

Source: Table 3 and Table 4, SFR 18/2010, DfE, 22nd June 2010

Parents and guardians receive £20.30 per week for the first child and £13.40 for subsequent children aged 16 to 19 (see Table 4). The estimated cost of 16–19 child benefit is £1.8bn and £1.1bn for 17–19 child benefit.

CfBT Education Trust

Table 4: 16–19 Financial Support before changes announced in Emergency Budget					
Type	**Recipient**	**Number of Families, Children and Learners**	**Funding by DEL/AME and Cost**	**Payment Amounts**	**Financial Eligibility**
Child Benefit (UK)	Parent	16–19 Families: 1.0m Children: 2.0m Take-up by Families: 90%+	Classification: AME Cost: £1.8bn Take-up by Expenditure: 90%+	£20.30 per week for first child and £13.40 per week for other children Paid for 52 weeks per year	Non-Means Tested
		17–19 Families: 0.7m Children: 1.2m	Cost: £1.1bn		
Child Tax Credit (UK)	Parent	16–19 Families: 0.4m Children: 1.0m Take-up by Families: 60%	Classification: AME Cost: £1.1bn Take-up by Expenditure: 76% Unclaimed: £0.35bn	Child Element £44.23 per week/ £2,300 per year Family Element £10.48 per week/ £545 per year Paid for 26 weeks but unchanged if household income unchanged	Means-Tested Child and Family Element up to £26,000. Family Element and tapered Child Element between £26,000 and £40,000 Family Element between £40,000 and £50,000 Tapered Family Element between £50,000 and £58,000
		17–19	Cost: £0.8bn		
EMA (England)	Learner	Take-up by 17 and 18 year olds in full-time further education: 43%	Classification: DEL Cost: £0.6bn	Between £10 and £30 per week Paid during term time only	Means-Tested £30 per week if household income is up to £20,817 per year £20 per week if household income is between £20,817 and £25,521 per year £10 per week if household income is between £25,521 and £30,810 per year
16–18 Learner Support (England)	Learner		Classification: DEL Cost: £0.1bn		Learners in financial hardship determined by provider

Child tax credit

Payment of child tax credit to parents of children aged 16–19 is **conditional** on both household income and participation in full-time further education or unwaged training. Around 700,000 families with the youngest child aged 16 or over are eligible for child tax credits. The number of 16–19 year olds in families claiming all types of tax credit is around 1m (see *Figure 3.3, Child and Working Tax Credit Statistics: April 2010, HMRC 2010*). Take-up of 16–19 child tax credit, however, is low in terms of number of eligible families, at 60% (see *Table 8, Child Benefit, Child Tax Credit and Working Tax Credit: Take-up Rates – 2007/08, HMRC, 2010*) and only slightly higher in terms of expenditure at 76%.

The estimated cost of 16–19 child tax credit in 2010/11 is £1.1bn. However, some £350m of child tax credits for 16–19 year olds is unclaimed (see *Table 8, Ibid, Take-up Rates – 2007/08, HMRC, 2010*). Clearly, the post-16 sector has much to do to encourage students to ask their parents to claim CTC to boost family finances to support staying-on in further education and unwaged training. Families with gross household income of between £26,000 and £40,000 will be eligible for between £2,845 per year/£55 per week (child element plus the family element) and £545/£10 per week (family element only).

Education Maintenance Allowances

About 43% of 17 year olds in full-time education received EMA in 2008 (see *Youth Cohort Study & Longitudinal Study of Young People in England: The Activities and Experiences of 17 year olds: England 2008, DCSF, 18th June 2009*). Of these, 74% received the full award of £30 per week (gross household income of up to £20,817), 12% received £20 (gross household income between £20,817 and £25,521) and 12% received £10 (gross household income between £25,522 and £30,810). Young people often use EMAs to fund transport costs (see *Mick Fletcher, Should we end the Education Maintenance Allowance?, CfBT, 2009*).

7. 0–16 family support and 16–19 financial support from 2011/12

The freezing of universal child tax credit and restriction of means-tested child tax credits from 2011/12 are central to the deficit reduction plan.

Changes to child benefit and child tax credit from 2011/12

Cutting the deficit

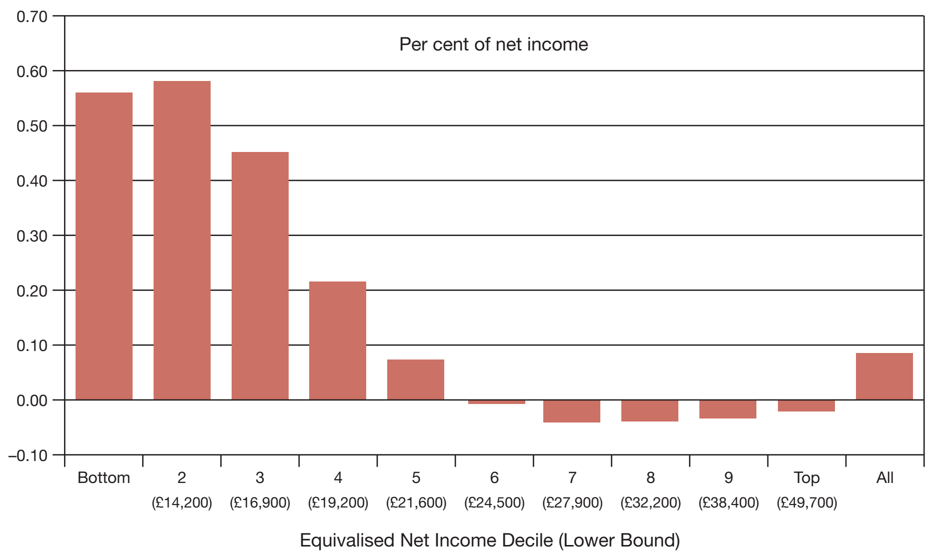
As part of the Emergency Budget, the Coalition Government decided to make reductions in AME including spending on welfare benefits to cut the fiscal deficit. The freezing of universal child tax credit and restriction of means-tested child tax credits from 2011/12 are central to the deficit reduction plan. Specifically, the Chancellor increased child tax credits for households with gross income of below £26,000 per year and scaled them back for households with gross income of above £26,000.

Impact on net income

The effect of the changes to child benefit and child tax credit from April 2012 on **net income** according to the Treasury is that households with net income of up to £24,500 gain but those above £24,500 lose out (see Chart 4).

When all measures in the Emergency Budget are taken into account, including reductions in direct tax (such as the increase in personal allowances) and indirect tax (the VAT increase), Treasury figures suggest that, as a per cent of net income, the top decile lose most but the bottom decile lose more than the second to eighth deciles (see Chart 5). This has caused a political storm over the extent to which the Coalition Government is taking forward truly fair economic policies.

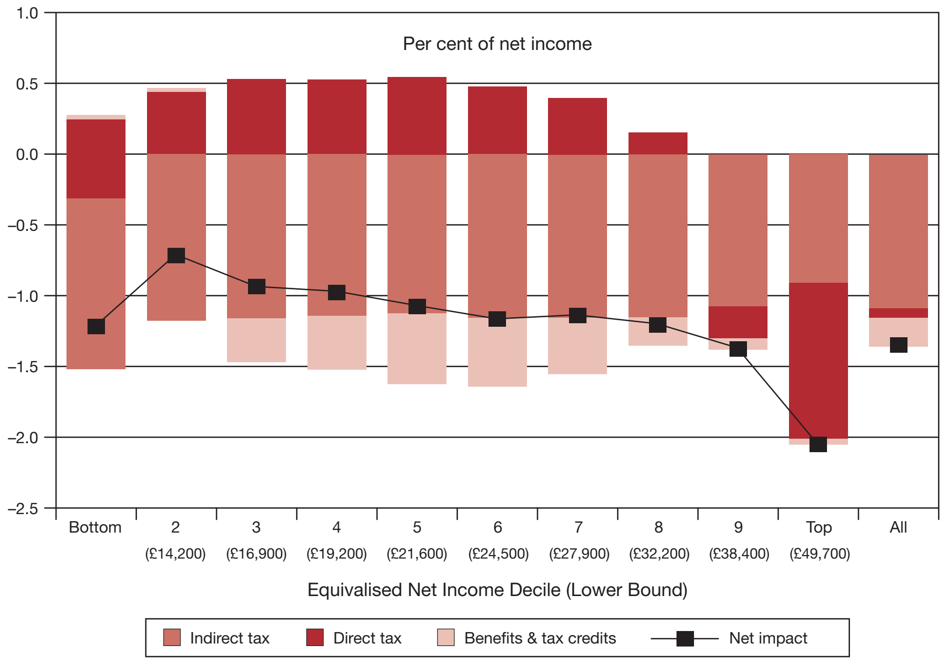
Chart 4: Impact of Child Benefit freeze and above indexation increase in Child Tax Credit in April 2012 as per cent of net income, by income decile



Source: HM Treasury tax and benefit micro-simulation model.

Source: Budget 2010, HM Treasury, 22nd June 2010. (© Crown copyright)

Chart 5: Impact of all measures as a per cent of net income by income distribution (2012–13)



Source: HM Treasury tax and benefit micro-simulation model.

Source: Budget 2010, HM Treasury, 22nd June 2010. (© Crown copyright)

16–19 Financial support

DfE review

Shortly after the Emergency Budget, the DfE announced a review of 16–19 financial support (see Diagram 9). It is vital, however, that the DfE review encompasses universal child benefit and means-tested child tax credit for 16–19 year olds – which are classed as AME (Annually Managed Expenditure) – as well as Education Maintenance Allowances and learner support which are classed as DEL (Departmental Expenditure Limits). If the review encompasses AME as well as DEL expenditure on 16–19 family and financial support, it is recognition that reductions in child benefit and child tax credit will reduce the income of parents with 16–19 year olds in full-time education and unwaged training.

Diagram 9: Review of 16–19 financial support

I can confirm that the education maintenance allowance (EMA) will be paid in full this year. In addition, eligible students may also get support for child care costs through the care to learn scheme, and hardship funds are provided to eligible students through discretionary learner support funds. Longer term plans for financial support for students aged between 16 and 19 will be considered in the context of the Comprehensive Spending Review in the autumn.

Nick Gibb, Minister of State for Schools, Department for Education, Oral Answer, House of Commons, Thursday, 24th June 2010

8. The future of universal benefits

With cuts to means-tested benefit already in the pipeline, including income support, housing benefit and child tax credit, attention has turned towards universal benefits…

Turning up the heat on middle class benefits

Universal benefits

Since the Emergency Budget in June 2010, the spotlight has been on how to achieve **extra** savings in annually managed expenditure to protect departmental expenditure. With cuts to means-tested benefit already in the pipeline, including income support, housing benefit and child tax credit, attention has turned towards universal benefits (see Diagram 10). Savings in universal benefits can fund spending priorities such as welfare reform and educational programmes.

Diagram 10: Selected universal benefits

Benefit	Cost
Winter Fuel Allowances for the over 60s	£2.7bn
Free TV Licences for the over 75s	£0.6bn
Free Bus Passes for the over 60s	£1.0bn
0–19 Child Benefit	£11.8bn
0–16	£10.7bn
17–19	£1.1bn
16–19	£1.8bn

Protecting universal benefits for older people

Interestingly, the Coalition Agreement commits the Conservatives and the Liberal Democrats to protect certain universal benefits, particularly those for older people including health benefits (see Diagram 11). Yet, the wording is crucial. The Coalition Government has promised to **protect** rather than maintain spending on universal benefits for older people.

Diagram 11: Protecting key benefits

We will protect key benefits for older people such as the winter fuel allowance, free TV licences, free bus travel, and free eye tests and prescriptions.

Chapter 23. Pensions and Older People,
The Coalition: Our Programme for Government, Cabinet Office, June 2010

Age restrictions rather than means-testing

Cutting universal benefits for older people but protecting the poorest pensioners could be achieved through means-testing. Yet, the Coalition Government is adamant that means-testing should not be extended to older people because it undermines dignity in old age. For this reason, the debate has focused on restricting eligibility to universal benefits by increasing the age at which they become available. For instance, the Winter Fuel Allowance could be restricted to 65 rather than 60.

Universal child benefit

Closing the door on means-testing child benefit

In his Emergency Budget statement, the Chancellor ruled out means-testing child benefit because it would require a new system to assess household income. Also ruled out was the taxing of child benefit because working mothers would receive less than non-working mothers. Yet, intriguingly the Chancellor described child benefit as *'this popular universal benefit'* (see Diagram 12).

Diagram 12: Emergency Budget Statement

We have also had to take a difficult decision about child benefit. I have received many proposals about this. Some have suggested we means test it; others that we tax it. All these proposals involve issues of fairness. This benefit is usually claimed by the mother. To tax it would mean the working mothers received less than the non-working partner of a millionaire. Means test it and we would have to create a massively complex new system to assess household incomes. I do not propose to do these things. I know many working people feel that their child benefit is the one thing they get without asking from the state.

So instead, to control costs, we have decided to freeze child benefit for the next three years. This is a tough decision, but I believe it strikes the right balance between keeping intact this popular universal benefit while ensuring that everyone, across the income scale, makes a contribution to helping our country reduce its debts.

George Osborne, Chancellor of the Exchequer, 22nd June 2010

Re-opening the door to cutting child benefit further

Child benefit is not mentioned in the Coalition Agreement but despite the Chancellor seemingly ruling out further cuts to child benefit until after 2014/15, the debate has re-opened. Savings in child benefit could be used to fund the priorities of the Coalition Government elsewhere. One area is welfare reform. In July 2010, Iain Duncan Smith, the Secretary of State for Work and Pensions published *21st Century Welfare* proposing a single Universal Credit bringing together out-of-work benefits, tax credits and housing payments and a single Unified Taper which reduces benefits as earnings increase at a single rate. The upfront cost of these reforms is estimated to be £3.0bn (see *BBC, Single welfare benefit among radical welfare plans, 30th July 2010*).

Alongside these proposals is the Poverty Review by Frank Field MP which is considering reforming child benefit to reduce child poverty and due to report by the end of 2010 (*Frank Field to lead independent review into poverty, Guardian, 5th June 2010*). Equally, savings in child benefit could be used to protect spending on children and families (£3.3bn) including Sure Start (£2.4bn) by DfE which will face even greater pressure in the light of having to fund a significant Pupil Premium of up to £2.5bn per year outside of the schools budget.

Options for cutting child benefit further

Diagram 13 identifies a range of options for reducing the £12bn budget for child benefit prior to freezing payments until 2014/15. Taxing child benefit at all rates could save £1.2bn. Another possibility is withdrawing child benefit from higher rate taxpayers paying 40% tax above earnings of £37,401 although the savings would be much less than £1.2bn.

Restricting child benefit to those with household income of £50,000 could save around £1.9bn. A couple, with one partner working and with two children, would pay around £14,000 in tax and national insurance. Hence, restricting child benefit to household incomes of under £50,000 would only affect families in the eighth, ninth and top net income deciles (see Chart 4). Yet, this is only £0.9bn more than freezing child benefit (£1.0bn).

Although not ruled out in the coalition agreement, the Coalition Government is disinclined to tax or means-test child benefit.

Diagram 13: Cutting the cost of child benefit

Option	Saving
Taxing child benefit	£1.2bn(1)
Restricting child benefit to £37,400 just below 40% tax rate	*less than* £1.2bn
Restricting child benefit to household income of £50,000	£1.9bn(2)
Restricting child benefit to household income of £40,000	£4.0bn(3)
Restricting child benefit to household income of £45,000	£2.9bn(4)
Restricting child benefit to 14 year olds	£3.0bn(5)
Restricting child benefit to the first child	£3.6bn(6)
Freezing child benefit until 2014/15	£1.0bn

Notes:

(1) Table 7, HM Treasury and HMRC, Tax ready reckoner and tax reliefs, December 2009.

(2) The £50,000 cut-off is illustrative. In 2008/09, 16% of expenditure on child benefit was paid to families with household income over £50,000 (Written Answer, House of Commons, 22nd June 2009). Applying this percentage to the 2009/10 estimate for child benefit expenditure gives a saving of £1.9bn.

(3) In 2008/09, 34% of expenditure on child benefit was paid to families with household income over £40,000 (Written Answer, House of Commons, 22nd June 2009).

(4) Calculation by author.

(5) BBC, Poverty tsar Frank Field looks at child benefit cuts, 11th June 2010.

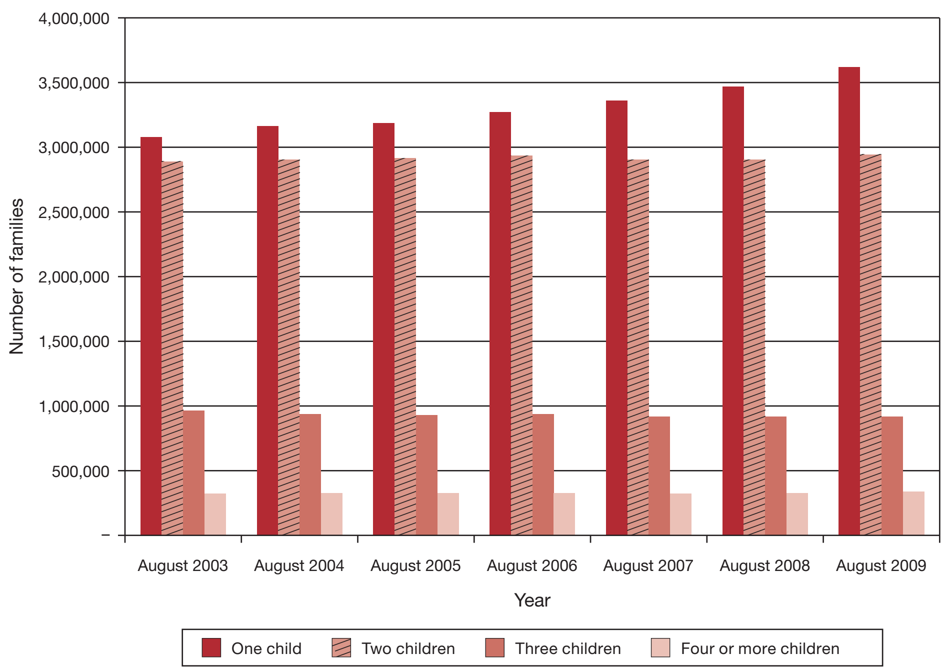
(6) Child benefit costs £1,055.60 per year for the first child. In 2009, 3.6m families had one child only, 2.9m had two children, 0.9m had three children and 0.3m had four or more children (see *Figure 4, Child benefit statistics. August 2009, HMRC, 2010*). Hence, 7.7m families had at least one child receiving £1,055.60 per week or £8.2bn per year. The total cost of 0–19 child benefit is £11.8bn.

Restricting child benefit to those with household incomes below £45,000 could save around £2.9bn and again only affect families in the eighth, ninth and tenth net income deciles. Furthermore, the £2.9bn saving would enable the Coalition Government to match cuts in the fiscal deficit by freezing child benefit and have £1.9bn for other spending priorities. Limiting child benefit to household income of under £40,000 could save £4.0bn but with families paying £10,500 in tax and national insurance, those in the seventh net income decile, namely between £27,900 and £32,199, would be adversely affected.

Although not ruled out in the coalition agreement, the Coalition Government is disinclined to tax or means-test child benefit. Hence, attention has turned to restricting child benefit by the age of each child, for instance, only paying to the 14th birthday, which would save £3.0bn (see *Guardian, Frank Field to lead independent review into poverty, 5th June 2010*). Curtailing the payment of child benefit to children up to the age of 14 would leave £2bn for spending priorities over and above the £1bn needed to cut the deficit from the assumed freezing of benefit payments. The downside, of course, is that child benefit would be withdrawn from rich and poor families alike with children aged 14–19. Compensating payments of child tax credit would merely reduce the aggregate saving.

Another proposal is to restrict child benefit to the first child (£20.30 per or £1,055.60 per year) withdrawing payments for subsequent children (£13.40 per week or £696.80 per year). Potential savings could be in the region of £3.6bn. However, over 4.2m families with more than one child would be affected irrespective of income (see Figure 4). Parents with three or more children with low incomes would be particularly hard hit.

Figure 4: The number of families broken down by family size, 2003 to 2009



Source: Child Benefit Statistics. August 2009, HMRC, 2010. (© HMRC Crown copyright)

9. 16–19 funding

The decision to exclude all 16 to 19 year olds from the Pupil Premium Grant meets the Coalition Government's fairness test.

Fairness and the Pupil Premium

A pre-16 or pre-19 Pupil Premium?

The Coalition Government has crafted the Pupil Premium Grant in terms of 4–15 year olds. Effectively, all 16 to 19 year olds are excluded from the grant irrespective of whether they attend school sixth forms, FE colleges or private providers.

The decision to exclude all 16 to 19 year olds from the Pupil Premium Grant meets the Coalition Government's **fairness test**. The choice before the new Government was between a Pupil Premium for 4–15 year olds or a Pupil Premium for 4–19 year olds. A Pupil Premium for 4–18 year olds in schools including school sixth forms would have been unfair (see Diagram 14). 16–18 year olds from poor backgrounds attending FE colleges would not be eligible for the premium and it is well known that 16 year olds from poorer backgrounds are more likely to attend general FE colleges rather than school sixth forms. Furthermore, applying a pupil premium to 16–18 year olds in school sixth forms but not 16–18 FE colleges would have widened the existing funding gap between both types of institution (see Table 5).

Diagram 14: The Pupil Premium Grant

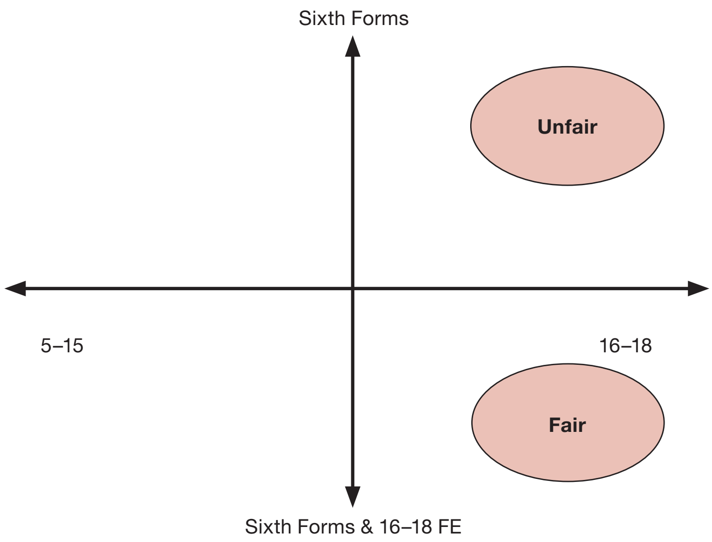


Table 5: National funding rates for 2010/11	
Funding model	**National funding rate**
16 to 18 learner responsive – school sixth forms	£3,007
16 to 18 learner responsive – all other providers	£2,920

Source: YPLA, 16–18 Funding Guidance 2010/11 – Funding Guidance, March 2010

The Audit Commission estimates that around 1 in 4 of all 16–18 year olds experience a period not in education, employment and training, of which two thirds are NEET for six months or more.

Quite rightly, the Coalition Government rejected the proposal by the Policy Exchange for sixth formers to receive the Pupil Premium (*School Funding and Social Justice: A Guide to the Pupil Premium, 2008*). Equally, however, the Coalition Government has resisted the idea of a 5–19 Premium for young people at school and FE colleges proposed by the Liberal Democrats (see *Equity and Excellence: Policies for 5–19 Year Olds in England's Schools and Colleges, March 2009*).

Without some protection from departmental spending cuts, DfE will face the impossible task of firstly delivering real terms cuts of between 25% and 33% by 2014/15 and secondly *'funding a significant 4–15 pupil premium outside of the schools budget'* but within budgets elsewhere. Cuts of between 10% and 20% might enable the DfE to square the circle to some extent but the pressure on non-school budgets will be immense. Certainly, 0–16 non-school budgets will be under immense pressure. The question is whether the Coalition Government will cut 16–19 tuition and financial support to fund a pre-16 Pupil Premium.

Protecting 16–19 funding

Cutting funding for 16–19 tuition and financial support to fund the pre-16 Pupil Premium would represent a transfer from today's 16–19 year olds to future 16–19 year olds. Fewer resources will be spent on today's 16–19 year olds so that more resources can be spent on today's 4–15 year olds. Yet, this is not the time to cut back resources for 16–19 year olds.

Despite the recession and a significant decline in jobs with and without training (see Table 3), over 9% of 16–18 year olds in December 2009 were not in education, employment or training (NEET). The Audit Commission estimates that around 1 in 4 of all 16–18 year olds experience a period not in education, employment and training, of which two thirds are NEET for six months or more. The short-term cost of 16–18 NEET to the Treasury is estimated to be £2bn (see *Against the odds: Re-engaging young people in education, employment or training, July 2010*). It should be noted, however, that the Treasury would not save this amount of funding if this group of 16–18 year olds re-engaged in education and training since the taxpayer would have to fund tuition costs and financial support costs including 16–19 child benefit and child tax credit as well as EMAs.

Even so, if the policy objective is to maximise the number of 16–18 year olds in education and training, 16–19 funding cannot be siphoned-off to support a pre-16 Pupil Premium. Despite the decline in jobs with and without training, 6.2% of 16–18 year olds were ILO unemployed and not in education, employment and training rather than in full-time education.

Many of this group of 16–18 year olds would jump at the chance of an apprenticeship. Yet, only 1.3% of all 16–18 year olds are on advanced (Level 3) apprenticeships, equivalent to A levels, and only 3.7% are on Level 2 apprenticeships. If the Coalition Government is to build a world class 16–18 apprenticeship system, more than free off-the-job training to employers will be needed. A comprehensive system of wage subsidies will be required to massively expand employer-based 16–18 apprenticeships.

In addition, there are concerns about the rising proportion of 16–18 year olds entering part-time rather than full-time further education when the objective is to maximise the proportion of young people achieving qualifications. Indeed, the latest evidence indicates that 1 in 5 fail to achieve a Level 2 qualification by age 19 and 1 in 2 do not have a Level 3 by the same age (see *Level 2 and Level 3 Attainment by Young People in England Measured Using Matched Administrative Data: Attainment by Age 19 in 2009, Provisional, DCSF, March 2010*).

There will always be a significant minority of young people who need longer to achieve a Level 2.

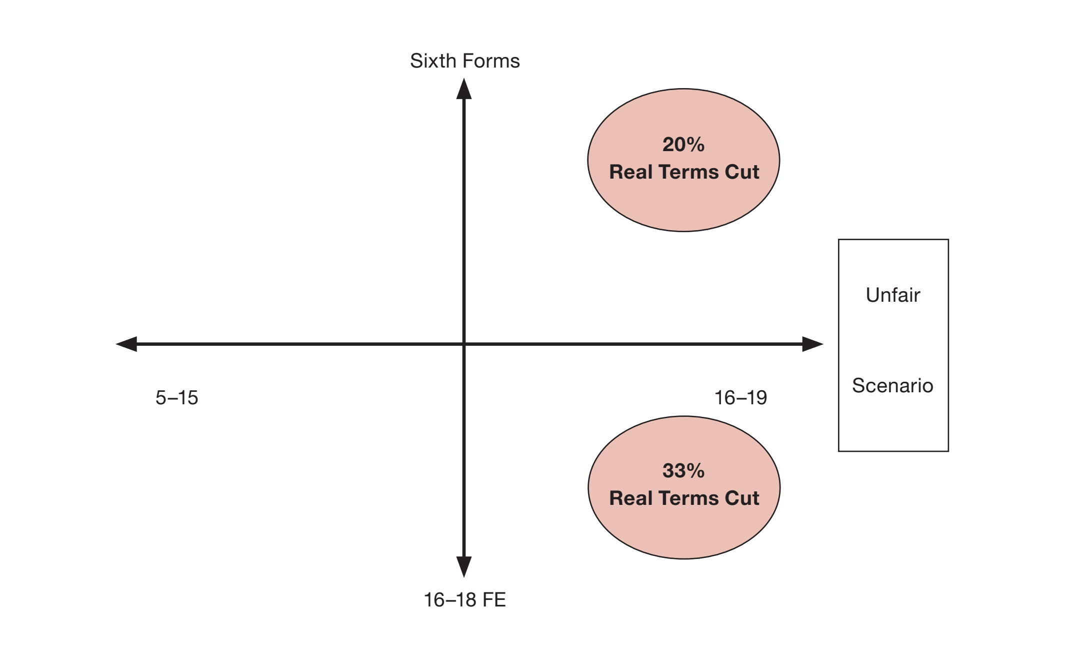
A pre-16 Pupil Premium could increase Level 2 achievement by age 16 but this will take five to ten years to fully work through. Nonetheless, not every young person learns at the same speed. There will always be a significant minority of young people who need longer to achieve a Level 2. In addition, a successful pre-16 Pupil Premium might boost Level 2 achievement by 16 but the period between 16 and 19 is when most Level 3 achievement takes place.

16–19 tuition funding

Treating school sixth forms and 16–18 FE fairly

The Coalition Government should be commended for maintaining spending on school sixth form and 16–18 FE during 2010/11. From 2011/12, when the spending squeeze begins to bite, **fairness** must govern its decisions on school sixth form and 16–18 FE funding. A decision, say, to cut school sixth funding by 20% in real terms and 33% for 16–18 FE (see Diagram 15) would be deeply **unfair**, either as a way of reducing the fiscal deficit or funding the pre-19 Pupil Premium.

Diagram 15: Illustrative Cuts to 16–18 Tuition Funding



16 year olds from poorer households tend to achieve less well at Level 2 (GCSE and equivalent) than 16 year olds from wealthier households. 16 year olds from poorer households without a Level 2 are more likely to attend general FE colleges rather than school sixth forms. Any bias towards greater cuts in 16–18 FE relative to school sixth forms would widen social inequality and unfairness.

Real terms cuts in 16–19 tuition funding

Even though 16–19 tuition funding must not be used to fund the pre-16 Pupil Premium, 16–19 tuition funding must contribute to the 10 to 20% real terms cut expected in DfE spending. Indeed, the Coalition Government can make cuts in 16–19 funding which deliver greater fairness. In the good times, fairness can be achieved through levelling-up. **In harder times, fairness must be achieved through levelling-down.**

A free meal system does not exist in the 16–18 FE sector.

During 2010/11, there are planned to be 439,000 young people in school sixth forms including maintained schools and academies (*Grant Letter to YPLA, DCSF, 31st March 2010*). In terms of national funding rates, school sixth forms receive an extra £87 per student compared to FE providers (see Table 5). Levelling down national funding rates for school sixth form funding to FE colleges would save £38m per year (see Diagram 16).

Free meals are only available to pupils attending schools including school sixth forms. A free meal system does not exist in the 16–18 FE sector. In January 2010, there were 23,500 16–18 year olds in state funded secondary schools eligible for free schools meals, representing 5% of the total excluding those in special schools and pupil referral units (see *Table 3A Schools, Pupils and Their Characteristics, DfE, January 2010 (Provisional), SFR 09/2010, 13th May 2010*). Restricting free meals to age 16 would create equality between 16–18 year olds in school sixth forms and 16–18 FE colleges. Assuming the cost of a secondary school meal is £1.62 per day and is available five days a week for 39 weeks per year, the cost of free school meals for state secondary school pupils is around £315m. Removing free meals from 16–18 year olds in school sixth forms would save around £15m.

Diagram 16: Potential savings in 16–19 tuition funding

Area	Saving
Reducing national funding rates for school sixth forms in line with 16–18 FE	£38m
Removing free meals from 16–18 year olds in school sixth forms in line with 16–18 FE	£15m
Increase class sizes in school sixth forms from 11 to 16	£500m

On the face of it, the combined savings of £53m from comparable funding rates for school sixth forms and 16–18 FE, and abolishing free meals to school sixth formers appears extremely modest. Yet, £53m would prevent a 10% cash cut in Education Maintenance Allowances for example and represents a third of the £140m learner support budget for 16–18 year olds.

More significant savings can be made by increasing the efficiency of school sixth forms. Average class sizes in English primary schools are 27. In secondary schools average class sizes fall to slightly above 20. By comparison, the average class size in school sixth forms is 11. Fairness and social mobility are ill-served by a schools system which has smaller class sizes to deliver A levels compared to primary education. Spending on school sixth forms in 2010/11 will be £2.2bn. If school sixth forms had class sizes of 22, equivalent to the average for younger pupils in secondary schools, at least 50% could be saved (see *Mick Fletcher, One billion reasons to save on sixth forms, FE Focus, Times Educational Supplement, 25th June 2010*). Even increasing average class sizes in school sixth forms to 16 could save £500m.

There is a danger, however, that inefficient delivery of post-16 provision in school sixth forms will continue because of the Coalition Government's policy to expand academy schools. Past policy insisted that maintained secondary schools seeking to become academies offered post-16 provision. Maintained secondary schools without a sixth form might use the academy route as a way of obtaining a sixth form, thereby increasing the number of small class sizes compared to sixth form colleges.

The temptation to abolish or severely cut EMAs to fund a pre-16 Pupil Premium will be tremendous.

16–19 financial support

Using EMAs to fund the pre-16 Pupil Premium

The Coalition Government decided to leave unchanged 16–19 financial support in 2010/11 including Education Maintenance Allowances. In the Emergency Budget, decisions were taken to freeze universal child benefit until 2014/15 and reduce eligibility to child tax credits for families with one child to household income of £26,000 from 2012/13. These measures have been introduced to cut the fiscal deficit. Child benefit and child tax credits count as AME whilst spending on Education Maintenance Allowances count as DEL. **The temptation to abolish or severely cut EMAs to fund a pre-16 Pupil Premium will be tremendous.**

Assess the impact of changes to child benefit and child tax credit

Before considering abolishing or severely cutting EMAs, the Coalition Government must assess the impact of the changes to child benefit and child tax credit from 2011/12 on the finances of parents supporting 16–19 year olds to stay-on post-16 in full-time further education and unwaged training.

Around 1 million families with 2 million 16–19 year olds in full-time further education (see Table 4) will lose out from the freeze in child benefit between 2011/12 and 2014/15. A family with one child aged 16 or over could lose £125 per year in real terms by 2014/15.

Around 420,000 families with 1 million 16–19 year olds in full-time further education receive child tax credit although only 60% of families claim what they are entitled to. Not all families eligible for and taking-up 16–19 child tax credit will be adversely affected. Even so, those with gross household income above £26,000 will certainly lose out, with the withdrawal of the family element worth £545 per year.

Taking into account the changes in child benefit and child tax credit together, families with gross income of between £26,000 and £50,000 with 16–19 year olds in full-time further education could lose £670 per year (£13 per week).

Other examples suggest families with gross income of between £26,000 and £35,000 with 16–19 year olds in full-time further education might feel the pinch. A couple with one partner working and two children with one aged 16–19 with gross household income of around £26,000 would have net income of £24,500 (after paying tax and national insurance, and receiving child benefit and child tax credit). This is equivalent to the fifth net income decile (see Chart 4). For those on gross household income of £35,000, net income would be around £27,900, equivalent to the sixth decile. By comparison, a couple with both working, with two children with one aged 16–19 would only need a gross income of around £32,000 to have net income of around £27,900 (sixth decile).

Clearly, the changes to child benefit and child tax credit to cut the fiscal deficit will affect families with 16–19 year olds in full-time further education and net household income above £24,500 (equivalent to gross income of £26,000). But the impact will be greatest on households with net income of between £24,500 and £32,200 (the sixth and seventh decile, see Chart 4) equivalent to gross income of between £26,000 and £35,000. **As a consequence, families with household income of between £26,000 and £35,000 will be those who feel the pinch in supporting 16–19 year olds to stay-on in full-time education and unwaged training, losing £670 per year for the first child.** Furthermore, eligibility for means-tested benefits such as child tax credit ensures access to free transport to school sixth forms and FE colleges. Many parents could face an extra bill for transport costs.

Participation in full-time education and training at 16 continues to increase because of higher GCSE attainment, which is the most important predictor of staying-on post-16.

Of particular importance is the impact on participation, retention and achievement of up to 1 million 16–19 year olds from up to 420,000 families claiming child tax credit, who now find their entitlement reduced or eliminated and who might be paying transport costs for the first time. Without question, the changes to child benefit and child tax credit will undermine rather than underpin participation, retention and achievement, especially from age 17.

Participation in full-time education and training at 16 continues to increase because of higher GCSE attainment, which is the most important predictor of staying-on post-16. At the same time, 16 year olds are staying-on in full-time education because jobs without training, jobs with employer training and apprenticeships are contracting. Indeed, 16 year olds are flooding into full-time education despite a contraction of part-time job opportunities to supplement their income. But at 17, despite ever **decreasing** jobs with and without training and limited apprenticeship opportunities, participation in full-time education falls by 9 percentage points. As a consequence, the proportion of 17 year olds not in education, employment and training doubles to 6.2% compared to 16 year olds. The sharp fall in job opportunities for full-time students is part of the explanation for the fall in participation in full-time education at 17 as student income is constrained. Furthermore, participation post-17 could be undermined if their families have household income of between £26,000 and £35,000 because less child benefit and child tax credit will be received and contributions to transport costs might have to be made.

Think twice before scrapping EMAs to fund the pre-16 Pupil Premium

EMAs are already well targeted on young people from poorer families. The highest rate of EMA, £30 per week, is paid to young people from families with gross household income of up to £20,817. For a couple with 1 working, with 2 children, earning £20,817, tax and national insurance would be £4,200. For a couple with both working and 2 children, tax and national insurance would be £2,400. And so, £20,817 gross household income in these examples equates to £16,600 and £18,600 net income which falls within the bottom to the third net income decile (see Chart 4).

EMAs of £20 per week are paid to those from families with household income between £20,817 and £25,521. For families with one partner earning £25,521 tax and national insurance contributions would be £5,900 and for those with two partners working deductions would be £3,900. Hence, gross income of £25,521 would equate to net income of between £19,600 and £21,600, which falls in the fourth net income decile.

EMA payments of £10 per week are limited to those from families with household income of between £25,522 and £30,810. Tax and national insurance payments would be £7,400 with one partner working and £5,500 where both are working. Consequently, £30,810 gross household income is equivalent to around £23,400 and £25,300 net income which falls within the fifth and sixth net income deciles.

Thus, EMAs are not available to 16–19 year olds from families with gross income above £30,810 – over 40% of families – who have net income above £25,300.

Scrapping EMAs would come on top of freezing child benefit and scaling back child tax credit. Abolishing EMAs would affect 16–19 year olds in full-time education and unwaged training from families with gross household income of less than £30,810. **EMA awards are already targeted on families with net income of below £25,000 per year falling (the sixth net income decile) depending upon family circumstances. Abolishing EMAs for 16–19 year olds from**

Cutting EMAs would penalise 16–18 college students relative to sixth form pupils. This is unfair.

households in the lowest six income deciles would reduce the gains these households were given by the Coalition Government in terms of the child benefit and child tax credit changes.

Equally, DfE ministers might be interested in retaining the full EMA award of £30 per week to 16–19 year olds in households with income of up to £20,817 (the bottom to the third net income decile) but abolish the £20 award and the £10 award. Seductive as this might be, the withdrawal of the £20 and £10 EMA awards on gross household income of between £20,817 and £25,521, and £25,522 and £30,810 respectively, would affect those in families with net income of up to £25,300 (which fall within the fifth and sixth net income deciles). Once again, these are the very income groups the Coalition Government has attempted to protect.

Abolition or scaling back of EMAs would also reduce funds available to 16–19 year olds to pay for transport costs. This would be in addition to reductions to families to subsidised transport because they are no longer eligible for child tax credit.

An unfair transfer

Using EMAs to fund the pre-16 Pupil Premium would represent a transfer from 16–19 financial support to 5–15 tuition support. Such a policy would also represent an **intergenerational transfer** from today's 16–19 year olds from low to middle income households to today's 4–15 year olds with additional educational needs who tend to come from households with low to middle incomes. This is unfair.

EMAs are available irrespective of provider and so include private sixth forms. But the limit of £30,810 means-tests out many parents with 16–18 year olds in state maintained sixth forms. Indeed, EMA recipients are more likely to attend FE colleges than state maintained sixth forms. The Association of Colleges states that 69% of EMA recipients attend FE colleges (College Key Facts – summer 2010!). Cutting EMAs would penalise 16–18 college students relative to sixth form pupils. This is unfair.

No to restricting child benefit to 14 year olds

The DfE Review of 16–19 Financial Support and the Coalition Government collectively should reject the proposal to restrict child benefit to parents with children up to 14 (see *Poverty tsar Frank Field looks at child benefit cuts, BBC, 11th June 2010*). Although this could potentially save £3bn (see Diagram 12), the proposal would remove child benefit for parents with 16–19 year olds in full-time education irrespective of income. Parents with lower incomes with 16–19 year olds would be hit hardest and struggle to support them to stay-on post-16. **Restricting eligibility to child benefit to 14 year olds could cause such family financial hardship that participation, retention and achievement by 16–19 year olds would be put at risk.**

No to restricting child benefit to the first child

Nearly 4.2m families in receipt of child benefit in the UK have more than one child, equivalent to 55% of the total. 2.9 million families with two children would lose £13.40 per week (£698.80 per year) and 0.9m with three children would lose £26.80 per week (£1,393.60 per year). Since the restriction to child benefit would apply irrespective of income, low income families and especially low income families with three or more children would be significantly affected. Compensating payments of child tax credit could be made but this implies an extension of means-testing.

Child benefit is paid to parents with 16–19 year olds in full-time education irrespective of income.

A rough estimate is that 550,000 families in receipt of child benefit have more than two children with one aged 16 or over. Around 380,000 have two children and would lose £698.80 per year, and about 110,000 have three children and would lose £1,393.60. Restricting the payment of child benefit to the first child would place considerable financial pressure on low income families with more than one child with at least one in post-16 education. There are better ways to reform child benefit **and** develop a fairer system of 16–19 financial support.

16–19 child benefit, dead weight and social mobility

Child benefit is paid to parents with 16–19 year olds in full-time education irrespective of income. But 17 year olds from higher and lower professional occupations, a fair proxy for household income, are more likely to stay-on in full-time further education than those from intermediate, lower supervisory and routine occupations (see Table 6) despite rising staying-on rates in recent years. **Dead weight in 16–19 child benefit is significant and should be eliminated.**

Table 6: Main activity at 17 by selected characteristics (%)

	Weighted Base	FTED (%)	Job With Training (%)	Job Without Training (%)	GST (%)	NEET (%)
All	*16,647*	63	9	12	7	8
Gender						
Male	*8,414*	59	10	12	10	8
Female	*8,233*	68	8	12	5	7
Ethnic origin						
White	*14,185*	61	10	13	8	8
Mixed	*376*	67	7	13	4	8
Indian	*382*	90	2	3	1	3
Pakistani	*392*	79	5	4	3	9
Bangladeshi	*164*	79	2	6	4	9
Other Asian	*200*	89	–	–	–	4
Black African	*304*	91	3	2	1	3
Black Caribbean	*241*	75	4	7	3	10
Other	*173*	84	5	4	1	6
Parental Occupation						
Higher Professional	*1,138*	78	6	7	5	3
Lower Professional	*6,236*	73	8	9	6	3
Intermediate	*3,118*	61	10	14	9	6
Lower Supervisory	*1,357*	50	13	17	12	9
Routine	*2,811*	50	10	17	9	14
Other/not classified	*1,957*	57	7	11	7	18

Source: Table 5.1.1 Youth Cohort Study & Longitudinal Study of Young People in England: The Activities and Experiences of 17 Year Olds: England 2009, DfE, 18th June 2009. (© Copyright: Team Longitudinal) Certain values are suppressed and represented by '–' due to sample size. FTED (full-time education), GST (Government Supported Training), NEET (Not in Education, Employment or Training).

Meanwhile, 18 year olds from higher occupation families tend to apply and gain places in higher education relative to those from lower occupation families (see Table 7). Child benefit is also paid to parents with 16–19 year olds in full-time education at **private schools** as well as those at state sixth forms and FE colleges. 18 year olds from private schools have a clear advantage in gaining entry into elite universities. **The Coalition Government should recognise that the payment of child benefit to parents with 16–19 year olds in full-time education irrespective of income undermines social mobility.**

Table 7: Status of HE application by characteristics

	Weighted base	In HE (%)	Accepted HE offer to start in 2009 or 2010 (%)	Applied for HE to start in 2009 or 2010 but awaiting offer (%)	Not applying to HE (%)
All	*14,811*	30	13	4	54
Gender					
Male	*7,554*	26	12	3	58
Female	*7,257*	33	13	4	49
Parental Occupation					
Higher professional	*1,006*	46	18	1	34
Lower professional	*5,597*	39	16	3	41
Intermediate	*2,776*	28	12	4	56
Lower supervisory	*1,179*	19	10	4	67
Routine	*2,488*	17	8	4	70
Other/not classified	*1,743*	16	11	5	67
Free School Meals (Year 11)					
No	*11,942*	30	13	3	54
Yes	*1,708*	14	10	6	71
Disability					
Yes	*1,168*	24	9	4	62
No	*13,400*	30	13	4	53
Don't know	*201*	30	13	3	52
Year 11 GCSE qualifications					
8+ A*–C	*6,860*	53	19	3	25
5–7 A*–C	*2,077*	22	12	4	61
1–4 A*–C	*3,013*	7	9	5	79
5+ D+G	*1,556*	1	2	4	91
1–4 D–G	*718*	1	2	3	94
None reported	*566*	5	4	3	88

Source: Table 4.1.1 Youth Cohort Study & Longitudinal Study of Young People in England: The Activities and Experiences of 18 Year Olds: England 2009, DfE, 22nd July 2010. (© Copyright: Team Longitudinal)

Means-testing is already extensive within 16–19 financial support, since child tax credits and EMAs are means-tested.

Reforming 16–19 child benefit

The Coalition Government should **decouple** 16–19 child benefit from 0–16 child benefit or more precisely child benefit for children in compulsory education and those in full-time further education. Means-testing is already extensive within 16–19 financial support, since child tax credits and EMAs are means-tested. In the name of minimising dead weight and increasing social mobility, 16–19 child benefit should be means-tested.

This report estimates that the cost of 16–19 child benefit is £1.8bn compared to £1.1bn for 17–19 year olds. Given that some 16 year olds will be in compulsory education and some will be in full-time further education, the estimate for post-compulsory 16–19 child benefit will be somewhere in the middle. A working assumption is that the cost is £1.5bn. Restricting post-compulsory 16–19 child benefit to household income of £50,000 could save £240m (see Diagram 17). Assuming one earner, after tax and national insurance, gross household income of £50,000 is equivalent to net income of £36,000 per year. If there are two earners, net household income will be higher because both have personal tax allowances. And so, means testing 16–19 child benefit to gross household income of £50,000 per year would only affect those in the eighth, ninth and top net income decile (see Chart 4). Given that £1bn will be saved on the £11.8bn child benefit budget by freezing payments (8.5%) and £1.5bn is spent on post-compulsory 16–19 child benefit, it is reasonable to say that £128m will be saved from freezing post-compulsory 16–19 child benefit payments. Means-testing post-compulsory 16–19 child benefit to £50,000 could nearly double the savings.

Diagram 17: Means-testing post-compulsory 16–19 child benefit

Cost of post-compulsory 16–19 child benefit	£1,500m
Savings from restricting payments to household income of £50,000	£240m(1)
Savings from restricting payments to household income of £45,000	£375m(2)

£128m from freezing post-compulsory 16–19 child benefit payments.

Notes:

(1) In 2008/09, 16% of expenditure on Child Benefit was paid to families with household income over £50,000 (Written Answer, House of Commons, 22nd June 2009). Applying this percentage to the estimate for post-compulsory 16–19 child benefit gives £240m.

(2) Calculation by author.

Restricting post-compulsory 16–19 child benefit to household income of £45,000 could save around £375m, nearly three times the amount from freezing child benefit. Once again, only those families in the eighth, ninth and top net income decile would be affected.

Cutting 16–19 child benefit to protect 16–19 EMAs

Means-testing post-compulsory 16–19 child benefit could achieve £375m of savings without adversely affecting post-16 participation, retention and achievement. However, the savings would not all accrue to England since child benefit is paid UK wide. But since 83% of children in receipt of child benefit live in England a fair estimate is that £310m could be saved by means-testing post-compulsory 16–19 child benefit to household income of £45,000. In turn, these savings could be used to protect spending on 16–19 EMAs.

Towards a means-tested 16–19 Youth Allowance

In fact, the Coalition Government should consider creating a means-tested 16–19 Youth Allowance. This would be based on pooling England-wide expenditure on means-tested post-compulsory 16–19 child benefit (£1,200m), post-compulsory 16–19 child tax credit (£900m), retained means-tested EMAs (£600m) and means-tested learner support (£150m) to form a means-tested 16–19 Youth Allowance. All payments would be made to young people rather than a mix to parents and young people at present. Young people rather than parents would be faced with means-testing. In this way, 16–19 year old students and trainees would be treated in the same way as full-time students in higher education. Payment of financial support directly to young people might also increase participation, retention and achievement as significant amounts of money would be paid to them on condition of staying-on.

Overall savings

Taking together the above suggestions to 16–19 tuition funding and 16–19 financial support, approximately £930m (see Diagram 18) could be saved without harming participation, retention and achievement or social mobility.

Diagram 18: Potential savings in 16–19 funding

Area	Saving
Reducing national funding rates for school sixth forms in line with 16–18 FE	£38m
Removing free meals to 16–18 year olds in school sixth forms in line with 16–18 FE	£15m
Increase class sizes in school sixth forms from 11 to 16	£500m
Restricting post-compulsory 16–19 child benefit to household income of £45,000 [savings accruing to England only]	£375m
Total	**£928m**

10. Funding the pre-16 Pupil Premium from 0–16 funding

A key decision to emerge from the negotiations between the Conservatives and the Liberal Democrats in the build up to the Coalition Agreement was that funding for the Pupil Premium must be in addition to existing spending on schools.

How much?

Close to £2.5bn

A key decision to emerge from the negotiations between the Conservatives and the Liberal Democrats in the build up to the Coalition Agreement was that funding for the Pupil Premium must be in addition to existing spending on schools. The Coalition Government has yet to announce how much funding will be allocated to the pre-16 Pupil Premium but is expected to do so after the Spending Review on the 20th October 2010. The range lies between the meaning of *'a significant premium for disadvantaged pupils outside the schools budget'* and £2.5bn per year (the Liberal Democrat position before the 2010 general election).

Conor Ryan, the former education adviser to the previous Labour administration is in favour in principle of a pre-16 Pupil Premium but argues the policy *'won't work unless it's new cash'* (see *The Independent, 10th June 2010*). During early August 2010, speculation mounted that DfE rather than the Treasury would stump up the extra cash for the pre-16 Pupil Premium with DfE cutting the scale of the per pupil increase from £2,400 to £1,000 and raiding other budgets to do so (see *Conor Ryan, Pupil premium: another funding row in the making, Public Finance blog, 9th August 2010*). Indeed, Conor Ryan warned of 'the dangers of a paltry pupil premium' (see *Public Finance blog, 9th August 2010*) as the losers from raided DfE budgets squealed louder than the applause of the winners.

Significant funding

Clearly, any sum approximating £2.5bn per year is a considerable amount of public expenditure. A pre-16 Pupil Premium of £2.5bn would be equivalent to 8% of the Dedicated Schools Grant in 2010/11. It would also be equivalent to nearly two thirds of existing standard grants of £3.8bn in 2010/11 (see Diagram 2).

Two sources of funding

Funding for the pre-16 Pupil Premium can come from two sources. The first is reductions in DfE departmental expenditure (DEL) on 0–16 year olds of compulsory education age. The second is cuts to annually managed expenditure (AME) on 0–16 year olds of compulsory education age. **Phasing-in can help in the short term but politically the DfE will need significant extra funding to make the pre-16 Pupil Premium work.** The solution lies in AME rather than DEL.

Cutting DfE DEL to fund the pre-16 Pupil Premium

Capital and revenue spending

The pre-16 Pupil Premium of £2.5bn could be funded from within DfE departmental expenditure on 0–16 year olds. Going forward, the Coalition Government will find it difficult to cut back capital spending on schools, especially given the commitment to create free schools and the political imperative of continuing with some capital projects for maintained schools and expanding academies. 0–16 revenue spending looks a better bet (see Diagram 19). Nonetheless, there are numerous political and policy obstacles.

Diagram 19: Potential 0–16 budgets to fund a pre-16 Pupil Premium

	Cost (2010/11)
Schools	
Modernising the teaching profession	£142m
National Strategies/Curriculum/Behaviour/Gifted & Talented	£1,388m
Other	£138m
Children and families	
Sure Start (including childcare and nursery education)	£2,427m
Parenting and families	£54m
Cafcass	£113m
Safeguarding	£11m
Special Educational Needs/disabilities	£258m
Building capacity	£22m
Child wellbeing	£383m
Other	£21m
Young people	
Youth programmes	£281m

Source: Table 8.4, Departmental Report 2009, DCSF, June 2009

Pre-16 schools funding

Definitions are everything when it comes to budgets. The Coalition Government has stated that the Pupil Premium will be funded outside of the 'schools budget'. A narrow definition would include the Dedicated Schools Grant and Standard Grants but exclude, for instance, the £1.4bn national strategies budget for curriculum, behaviour and gifted and talented pupils (see Diagram 19). It should be noted that funding for free school meals is funded via DSG and so presumably free school meal funding cannot be used to fund a pre-16 Pupil Premium. This is quite separate from the decision by the Coalition Government to reject the move towards universal free school meals (see *Free schools continue; costly expansion plans shelved, Press Release, DfE, 9th June 2010*).

Children and families

An alternative is children and families funding. Cutting special needs education and disability funding (£258m) to fund a programme to help disadvantaged pupils with educational needs would be tantamount to *robbing Peter to pay Paul*. Sure Start, which is often cited as a potential budget to cut to fund a pre-16 Pupil Premium includes spending on childcare and nursery education. On the other hand, the Child Wellbeing budget (£355m) could be in the frame.

Young people

The budget for young people includes 16–19 tuition funding and 16–19 EMAs, both of which should be out of scope for funding a pre-16 Pupil Premium. Even so, the Youth Programme budget (£281m) including youth services could be at risk.

A government founded on fairness should support with open arms means-testing 0–16 child benefit for children of compulsory education age to fund the pre-16 Pupil Premium.

Using 0–16 child benefit to fund the pre-16 Pupil Premium

A fair policy

Instead of cutting deep into 0–16 education funding or children and families programmes, the Coalition Government should fund the pre-16 Pupil Premium in England through means-testing 0–16 child benefit. More precisely, the Coalition Government should fund the pre-16 Pupil Premium through means-testing 0–16 child benefit for children up to compulsory education age.

Restricting the payment of 0–16 child benefit for children up to compulsory education age in households with gross income of up to £50,000 – so that only the top 20 to 25% of households lose out (see Chart 4) – could save around £1.65bn (see Diagram 20). On the face of it, raising £1.65bn in this way would go a long way to meeting the objective of funding a 'significant pupil premium out of non-school budgets' although it would be £1bn short of the £2.5bn called for by the Liberal Democrats when in opposition. Yet, the £1.65bn estimate is for the UK. A rule of thumb is that 83% of child benefit payments are paid to children in England. Hence, the saving would be about £1.37bn. Furthermore, £0.87bn is required to match the savings from freezing 0–16 child benefit for children up to compulsory education age to cut the fiscal deficit. Consequently, the proposal would only raise £0.5bn for a pre-16 Pupil Premium in England.

Restricting 0–16 child benefit for children up to compulsory education age in household income of £45,000 might raise £2.58bn, more than the £2.5bn figure supported by the Liberal Democrats. It also appears that only families in the eighth, ninth and tenth net income deciles, namely above £32,200 per year would lose out. Since 83% of child benefit payments are made to children in England, the saving would be around £2.14bn. Allowing for £0.87bn to cover the cost of freezing pre-compulsory 0–16 child benefit, the total available for the pre-16 Pupil Premium in England would be £1.27bn.

Means-testing 0–16 child benefit to household income of £45,000 would represent the transfer of family support from wealthy families to tuition support for children from disadvantaged families. **A government founded on fairness should support with open arms means-testing 0–16 child benefit for children of compulsory education age to fund the pre-16 Pupil Premium.**

Diagram 20: Means-testing 0–16 child benefit for children up to compulsory education age

Cost of 0–16 child benefit (UK) up to compulsory education age	£10.300m(1)
Savings from restricting payments to household income of £50,000	£1.650m(2)
Savings accruing to England	£1.370m
Savings from restricting payments to household income of £45,000	£2.580m(3)
Savings accruing to England	£2.140m
Savings from freezing 0–16 child benefit for children up to compulsory education age is £875m	

Notes:

(1) The cost of child benefit in 2010/11 is £11.8bn. The cost of post-compulsory 16–19 child benefit is estimated to be £1.5bn. Hence, the cost of 0–16 child benefit for children up to compulsory education age is £10.3bn.

(2) In 2008/09, 16% of expenditure on child benefit was paid to families with household income over £50,000 (Written Answer, House of Commons, 22 June 2009). Applying this percentage to the estimate for 0–16 child benefit for children up to compulsory education age gives a saving of £1.65bn.

(3) Calculation by author.

The payment of 0–16 child benefit for children up to compulsory education age to families with household income of £45,000 per year does little to tackle child poverty. Dead weight is significant in this respect. In addition, the payment of 0–16 child benefit on a universal basis **entrenches** unfairness and social immobility. GCSE attainment at 16 is heavily biased towards those from families in higher and lower professional occupations which can be used as a proxy for household income (see Table 8). In turn, GCSE attainment at 16 and parental income are key determinants of staying-on in full-time education and entry into higher education (see Table 7 and Table 8). Furthermore, universal 0–16 child benefit for children up to compulsory education age is paid to parents with children attending private schools irrespective of income, and children from private schools score significantly better at A level and gain entry into Oxbridge than state educated pupils and students.

Table 8: Academic attainment in Year 11 (2006) by characteristics

Highest Year 11 Qualification[1]

	Weighted sample	5+ GCSE A*–C %	8+ GCSE A*–C %	5–7 GCSE A*–C %	1–4 GCSE A*–C %	5+ GCSE D–G %	1–4 GCSE D–G %	None %
All	*19,114*	**58**	44	14	21	11	5	4
Sex								
Male	*9,666*	**54**	40	14	22	13	6	5
Female	*9,448*	**63**	48	14	20	10	4	3
Ethnic origin								
White	*16,311*	**58**	44	14	21	11	5	4
Mixed	*431*	**55**	40	15	26	9	7	4
Indian	*441*	**72**	58	14	17	8	2	1
Pakistani	*450*	**52**	36	15	24	17	5	4
Bangladeshi	*189*	**57**	38	19	22	12	6	3
Other Asian	*218*	**77**	64	12	13	6	3	–
Black African	*461*	**55**	38	17	27	12	5	2
Black Caribbean	*375*	**44**	27	17	31	14	8	3
Other	*209*	**56**	41	15	27	11	2	4
Parental Occupation								
Higher professional	*1,251*	**81**	68	13	12	4	1	2
Lower professional	*7,045*	**73**	59	14	17	6	2	2
Intermediate	*3,554*	**59**	44	16	23	12	3	3
Lower supervisory	*1,578*	**46**	31	15	27	17	6	4
Routine	*3,242*	**42**	27	14	26	18	9	6
Other/not classified	*2,444*	**34**	21	13	25	17	14	11

Source: Table 4.1.2 Youth Cohort Study & Longitudinal Study of Young People in England: The Activities and Experiences of 16 Year Olds: England 2007, DCSF, 26th June 2008. (© Copyright: Team Longitudinal) Certain values are suppressed and represented by '–' due to sample size.

[1] Includes equivalent GNVQ qualifications achieved in Year 11.

… the removal of child benefit from households with gross income above £45,000 is unlikely to reduce incentives to enter and remain in work.

Means-testing child benefit would undoubtedly extend the number of households with children of compulsory education age involved in means-testing. Yet, means-testing is part of daily life for poorer families, namely those on child tax credit. And in any case, means-testing 0–16 child benefit would be building on the means-tested child tax credit system. Some of the gross savings in 0–16 child benefit would be reduced by extra administrative costs but far less than the estimated £2.58bn if restricted to household income above £45,000. **Furthermore, the removal of child benefit from households with gross income above £45,000 is unlikely to reduce incentives to enter and remain in work.**

The fairest option

What is undoubtedly true, however, is that means-testing 0–16 child benefit is a fairer option than restricting it to parents with children age 14. During the crucial final two years of secondary education, parents irrespective of their income would lose out on child benefit payments, the key time when young people are preparing for GCSE and other Level 2 qualifications.

Means-testing is also preferable to restricting child benefit to the first child. To repeat, 4.2m families in receipt of child benefit in the UK have more than one child, equivalent to 55% of the total. 2.9 million families with two children would lose £13.40 per week (£696.80 per year) and 0.9m with three children would lose £26.80 per week (£1,393.60 per year). Since the restriction to child benefit would apply irrespective of income, low income families and especially low income families with three or more children would be significantly affected.

Compensating payments of child tax credit could be made under both options. Yet, they would reduce the estimated savings of each proposal and potentially extend means-testing (see Diagram 13).

11. Fair funding from the Pupil Premium at 14

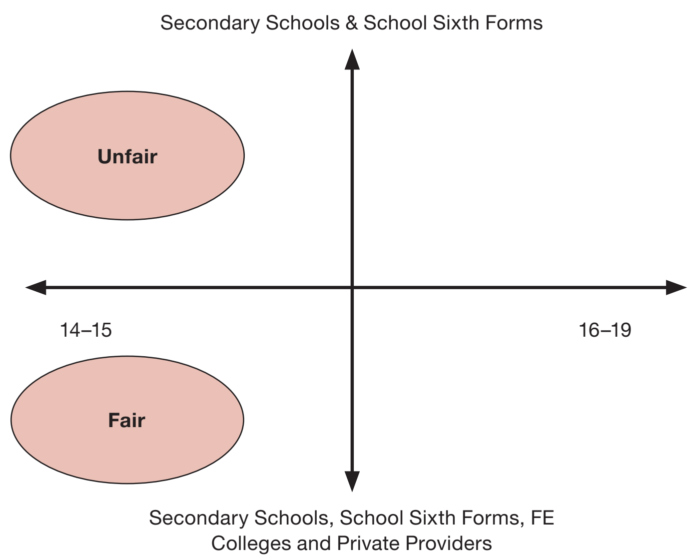
Around 6% of 14 and 15 year olds are enrolled in FE colleges studying vocational courses.

More than one type of provider at 14

Schools are not the sole provider of education at 14. Schools are complemented by FE colleges and private training providers. Fairness dictates that the pre-16 Pupil Premium is paid irrespective of the institution that disadvantaged pupils attend. Restricting the pre-16 Pupil Premium to schools is an unfair policy. Opening up funding from the pre-16 Pupil Premium to FE colleges and private providers would be a fairer policy (see Diagram 21).

Diagram 21: Fair funding at 14

The Pre-16 Pupil Premium



Part-time FE from 14

Around 6% of 14 and 15 year olds are enrolled in FE colleges studying vocational courses. Some 70,000 attend part-time and 4,000 attend full-time (see *College Key Facts – Summer 2010! Association of Colleges*). Most but not all will be 14 and 15 year olds on track for fewer than 5 GCSEs A*–C and many will come from disadvantaged backgrounds.

Vocational courses often cost more than academic courses. Funding of part-time FE for 14–15 year olds is also very messy. Many local authorities delegate the full amount of funding for every 14–15 year old to secondary schools. It is then for the headteacher to negotiate with their local college principal over funding for 14–15 year olds attending one or two days per week. This is normally much less than two fifths of the funding per pupil received by the school.

A few local authorities retain funding from schools for the cost of part-time FE for 14–15 year olds. In turn, they distribute the funding centrally to colleges. Another group delegates the average

It would be unfair, however, for schools to retain the entire pre-16 Pupil Premium for 14–15 year olds on part-time vocational courses and apprenticeships delivered by FE colleges and training providers.

cost per pupil to schools but retains centrally the extra cost for vocational courses. Where the course is delivered by the school, local authorities pass on the funding for vocational provision to them. Where the FE college offers such provision, local authorities pass on funding for vocational provision to them and schools are expected to pass on all or part of the average cost per pupil to the FE college.

Many college principals offer part-time places to 14–15 year olds at a loss. They do so because their mission is to create a fairer society and increase social justice.

14–16 Young Apprenticeships

The YPLA is responsible for funding 14–16 Young Apprenticeships. In 2010/11, the YPLA plans to spend £33m on Young Apprenticeships (see *Grant Letter to YPLA, DCSF, 31st March 2010*) funding 10,000 places. Some 14–16 year olds on Young Apprenticeships, although by no means all, will come from disadvantaged backgrounds. Both partners of the Coalition Government in opposition supported expansion of 14–16 Young Apprenticeships.

14–19 Technical Academies

At present, the notion of 14–19 vocational education is firmly located in the schools agenda. The Coalition Government plans to create 14–19 Technical Academies (see Diagram 22), possibly up to 12 depending on the spending settlement. They are sometimes known as University Technology Colleges (*University technical college is set to make its debut, Guardian, 10th August 2010*) but this is misleading since they are not universities and certainly closer to secondary school City Technology Colleges than FE colleges. Crucially, 14–19 Technical Academies will be academy schools which can select up to 10% of pupils on the grounds of ability.

Diagram 22: Vocational education

We will improve the quality of vocational education, including increasing flexibility for 14–19 year olds and creating new Technical Academies as part of our plans to diversify schools provision.

Part 26, Schools, Coalition Agreement, June 2010

Fairness at 14

Disadvantaged when at school but not at college

The Coalition Government is in danger of entrenching unfairness through the pre-16 Pupil Premium from 14 onwards. Many of the 80,000 14–15 year olds attending part-time FE and young apprenticeships are from disadvantaged backgrounds and entitled to the pre-16 Pupil Premium. **It would be unfair, however, for schools to retain the entire pre-16 Pupil Premium for 14–15 year olds on part-time vocational courses and apprenticeships delivered by FE colleges and training providers.** To argue that 14–15 year olds are disadvantaged whilst spending 3 days at school but are not disadvantaged whilst attending 2 days at an FE college or a training provider is disingenuous.

Pupil Premium for 14–19 Technical Academies but not FE colleges

The pre-16 Pupil Premium is also likely to create **vocational apartheid** between 14–19 Technical Academies and FE colleges. 14–19 Technical Academies offering a mixed academic and vocational education to disadvantaged pupils will receive funding from the pre-16 Pupil Premium. FE colleges offering part-time vocational education and training to disadvantaged 14–15 year olds will not receive funding from the pre-16 Pupil Premium.

No Pupil Premium for full-time 14–15 year olds in FE

Currently, there is only a small number of 14–15 year olds who are enrolled full-time at FE colleges. Almost every one of the 5,000 14–15 year olds in full-time FE will come from a disadvantaged background. Arguably, the 5,000 full-time FE students aged 14–15 have the same right to the pre-16 Pupil Premium as disadvantaged 14–15 year olds attending the proposed 14–19 Technical Academies. **But the wider point is that both the Conservatives and the Liberal Democrats when in opposition supported the idea of full-time FE from age 14 as a way of transforming vocational education and training for young people.** Full-time FE for 14 to 15 year olds certainly brings into question the fairness of limiting the pre-16 Pupil Premium to disadvantaged pupils attending schools.

Wider reform

The Coalition Government must devise a distribution system for the pre-16 Pupil Premium which allocates funding fairly between schools, FE colleges and training private providers from 14. The Coalition Government should use the consultation process on the Dedicated Schools Grant to set a new framework for funding 14–16 year olds which takes into account part-time and full-time enrolment at FE colleges and 14–16 young apprenticeships.

12. The pre-16 Pupil Premium, school reform and the 14–19 phase

The Coalition Government already has in place a quango which can take on the direct funding of more and more maintained schools becoming academies.

Towards a national 5–19 schools and college funding system

Long-term direction of travel

Intentionally or otherwise, the Coalition Government is adopting policies which all point towards the creation of a national 5–19 schools and college funding system (see Diagram 23).

The first of these is the pre-16 Pupil Premium itself. The pre-16 Pupil Premium will take the form of a specific grant rather than the extra funding allocated to tackle disadvantage being routed through the Dedicated Schools Grant. As a consequence, local authorities will be required to pass the funding on in its entirety. In addition, the long-term aim is that the pre-16 Pupil Premium Grant will be the *'main mechanism for targeting deprivation funding'* covering pupil premium funding announced in the spending review but also the £3bn or so in DSG and £0.85bn in other grants (*Question and Answer Brief, School Funding Consultation for 2011/12, DfE, July 2010*). In short, all deprivation funding will go direct to schools and a greater proportion of total DfE funding for schools will go direct to them without top slicing from local authorities.

Diagram 23: Four key policies

- Pre-16 Pupil Premium
- Expansion of Academies
- YPLA
- Review of pre-16 schools funding

The second long-term influence on pre-19 education and training policy is the expansion of school academies. School academies, including 14–19 Technical Academies, are funded at the same rate as they would have been by their host local authority. They are also funded by the YPLA rather than local authorities, with pre-16 academy provision funded on local rates and 16–19 academy sixth form provision funded on national rates. The greater the number of state maintained schools becoming academies, the greater the proportion of DfE schools funding which will be funded by the YPLA rather than local authorities.

The third long-term influence on pre-19 education and training is the existence of the YPLA. The Coalition Government already has in place a quango which can take on the **direct funding** of more and more maintained schools becoming academies, including academies without sixth forms (funded on local rates) and academies with sixth forms (which receive funding based on local rates for pre-16 provision and national funding rates for 16–18 provision).

And the fourth long-term influence is the almost hidden decision within the consultation on the Pupil Premium that the government will *'announce plans for the longer term direction of school funding in due course'* (*Paragraph 91. Consultation on school funding 2011/12, DfE, July 2010*). The question is whether these longer term plans will signal the move towards the funding of every school on the basis of a **national funding formula** using national rather than local rates. If so, this would effectively end the role of local authorities in influencing the distribution of pre-16 education funding to local schools.

Little has been heard of the idea of the last Labour Government to consider the development of a national 14–19 funding system for a 14–19 phase.

National funding formula, national rates and a national funding council
Together, these four long-term policies could lead to a national funding formula using national rates for pre-16 schools funding and 16–19 participation funding including schools and FE colleges. The implication is that the YPLA – and its necessary local arms – would become a national funding agency for 5–19 school and FE funding based on national rates across England.

Added to these arguments are the benefits that a national 5–19 school and FE funding agency could bring to funding part-time 14–15 FE and young apprenticeships more coherently, and any move towards massively expanding full-time FE from age 14. The YPLA and its local arms would be able to allocate resources – including the pre-16 Pupil Premium – fairly between schools, FE colleges and training providers for 14–15 year olds.

Finally, a 5–19 national funding agency for schools and FE colleges would be well placed to manage any extension of the Pupil Premium to 16–19 year olds as the Liberal Democrats originally intended. Most disadvantaged 16–19 year olds attend FE colleges rather than school sixth forms. The YPLA already funds both school sixth forms and FE colleges on national rates.

The 14–19 phase

Back to the break at 16
14–19 as a distinct phase of education and training was a central building block in Liberal Democrat education policy during the general election. 14–19 Diplomas, full-time FE from age 14 and a 5–19 pupil premium including 16–19 year olds in FE colleges were major parts of their platform. Despite support for 14–19 Technical Academies, 14–16 Young Apprenticeships and in some quarters full-time FE from age 14, on balance the Conservatives went into the general election committed to the break at 16. Certainly, the give and take of coalition politics gives credence to the view that distinct 14–19 initiatives will emerge piecemeal. Furthermore, there is no sense that the Coalition Government is committed to developing an integrated 14–19 phase of education and training.

No need for discrete 14–19 funding policies
To this extent, the development of discrete funding policies for a distinct 14–19 phase is off the agenda. Little has been heard of the idea of the last Labour Government to consider the development of a national 14–19 funding system for a 14–19 phase. Similarly, a distinct 14–19 phase might lead policy makers to consider creating a 14–19 Student Premium operating alongside a pre-14 Pupil Premium. Moreover, a distinct 14–19 phase might require the development of a 14–19 financial support system including the extension of EMAs to 14–15 year olds (see *Mick Fletcher, Should we end the Education Maintenance Allowance?, CfBT, 2009*) although restricting Child Benefit to fund a pre-14 Pupil Premium would be full of pitfalls. For ease of policy development, the Coalition Government should make clear whether 14–19 is a distinct phase of education or not.

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