

To:

Rt. Hon. Liz Kendall MP, Secretary of State, Dept. for Work and Pensions

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Rt. Hon. Bridget Phillipson MP, Secretary of State, Dept. for Education

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Child Poverty Unit, Cabinet Office

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15th January 2025

Setting out plans for tackling Child Poverty with Inter-generational Rebalancing, following my letter of 20th November (attached hereto)

Following a constructive meeting between myself and four members of the HMRC and HM Treasury teams last week, it was suggested that we should write to you to ask formally for the inclusion of a new starter capital account to be established for children from low-income backgrounds.

During the meeting I set out the two alternatives for taking this proposal forwards: both of which would require Government co-operation, but only the first of which would require significant Government funding.

The key features of our proposal are:

1. A new starter capital account based on an initial starter credit of £500, to be established as an 'HMRC-Allocated' account as at the child's first birthday, and which would only apply for children from low-income backgrounds (i.e. in receipt of Child Tax Credit).
2. A programme of incentivised learning for life skills would be provided from primary school age in order to ensure a good standard of financial awareness by adulthood, providing the opportunity to earn an additional up to £1,500 into their account. The effectiveness of incentivised learning has been clearly evidenced in The Share Foundation's work for young people in care.
3. The enacting legislation will include an 'automatic withdrawal at 21' process, which will ensure that the value in their accounts is delivered to these young adults at a time when it will make a major contribution to their life prospects.

Under the first alternative discussed, Government would fund the c. £250 million annual cost of the scheme, preferably using a very small part of Inheritance Tax receipts. However, because we recognise that HM Treasury would be reluctant to fund this cost at present due to current pressures on Government debt and the Public Sector deficit, our alternative proposal is to raise the necessary funding from philanthropic sources.

The indication, at that meeting with Treasury officials last week, was that a positive approach might be taken to co-operating with us in order to put in place the necessary regulation and logistics to put this into operation.

If the proposal were to be progressed in this way, HM Treasury would clearly need to be confident in our ability to raise this large scale of philanthropic funding in order to support children's wellbeing and development in this way. Encouraging soundings have already been taken across a range of major charitable and financial organisations to explore this philanthropic campaign.

I am therefore writing to ask for your support in principle for this initiative: this would be essential, because a philanthropically-funded scheme such as this 'Child Trust Fund Mark 2' proposal will only work if it has co-operation from Government to put in place the necessary regulatory and logistic measures.

On receiving your supportive response for this initiative, we will convene an Advisory Group in order to provide that necessary confidence in our ability to secure large-scale philanthropic funding.

With best wishes



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To: Rt. Hon. Rachel Reeves MP
Rt. Hon. Bridget Phillipson MP, Secretary of State for Education
Tulip Siddiq MP, Economic Secretary to HM Treasury (now Emma Reynolds MP)
James Bowler Esq., Permanent Secretary to HM Treasury
Mark Pickard Esq., HM Revenue & Customs

cc. Respondents to The Share Foundation's Annual Report & accompanying letter
to Members of Parliament & House of Lords

Wednesday 20th November 2024

Tackling Child Poverty with Inter-generational Rebalancing

'Legacy is not what I did for myself. It's what I'm doing for the next generation.'

Vitor Belfort

The response to the challenge of child poverty in the United Kingdom should be to use inter-generational rebalancing to equip all disadvantaged young people from low-income backgrounds with the resources and life skills to give them the best chance to achieve their potential in adult life.

As the Government is keen to point out, there's plenty of wealth in the United Kingdom, but it's concentrated in relatively few hands: hence the efforts to level it down by taxing those 'with the broadest shoulders'. But, unlike other taxes whose purpose is rightly to support public spending, inheritance levies ought to be directed primarily at funding that inter-generational rebalancing.

Of course, we are very aware of the scale of public debt which makes this aim difficult to achieve and that, instead of enabling that inheritance to achieve more egalitarian new generations, the money is spent on paying interest on the debt and helping to fund the dysfunctional NHS (which could itself benefit from introducing a requirement for mandatory private health insurance from wealthy old people).

As a result, those calls to tackle child poverty are not reflected in the sort of positive action that was evident in the previous Labour Government – there's very little levelling up for disadvantaged young people.

During the past fortnight two written questions were asked in the House of Lords seeking answers to The Share Foundation's two major initiatives: to enable low-income young people to receive the benefit of their Child Trust Funds by introducing a 'Default Withdrawal at 21' process for HMRC-allocated accounts, and to accept the major step forward that the charity has achieved with its incentivised learning programme for young people in care.

The answers to both questions were not encouraging: please see annex 1 to this letter for the detailed wording. We were particularly disappointed that, having submitted these requests to HM Treasury and the Department for Education respectively in August, we were not only provided with no direct response but also there was no consultation on how these initiatives could be effectively delivered for disadvantaged young people, notwithstanding our considerable efforts in both respects over the past six years.

Confronted with this inaction and negativity towards significant steps to prevent child poverty extending into adult life, we consider that it is now time to look ahead in order to learn from what was done by that previous Labour Government, and to show how future

generations can benefit. We would go so far as to say that if the present Government lacks the determination to break the cycle of deprivation by prioritising even a small part of inheritance levies in order to provide disadvantaged young people with starter capital accounts and life skills, we would be prepared to explore the potential for a widespread campaign so that philanthropists are encouraged to commit to an endowment of at least 10% in their Wills in order to fund inter-generational rebalancing more directly.

Lessons learnt from the Child Trust Fund

To gather up what we've learned over the past two decades: the biggest initiative to stop child poverty extending into young adult poverty over this period was the Child Trust Fund*, the scheme which has enabled over six million children born in the United Kingdom between September 2002 and January 2011 to have a starter capital account opened in their name. There are three major lessons to learn from this experience (apart from the fact that young adults, understandably, find it quite difficult to relate to the scheme's name, 'Child Trust Fund').

1. The first is that it was designed to be universal, no doubt reflecting the socialist origins of the Labour Party. It did have a progressive element, so that a child born into a family in receipt of Child Tax Credit received double the normal starting contribution; but the whole scheme cost far too much as a result – over £3 billion. It therefore provided accounts for a very large number of young people whose families were well able to afford their own savings, and it was considered unaffordable by the incoming coalition government in 2010.
2. The second problem was that there was no provision in the legislation for releasing the funds to young owners of HMRC-allocated accounts. HMRC allocation was how most accounts for children in low-income families were opened, because their parents, potentially having no experience of savings or investment, had taken no action by the child's first birthday. As a result, there are already about 300,000 low-income young adults unaware of their unclaimed accounts worth a total of nearly £1 billion. This is the reason why The Share Foundation continues to push hard to have a release mechanism introduced (see annex 2): hence the first of those two written questions in the House of Lords.
3. The third problem was that there was no organised provision for learning financial life skills built into the scheme's design. As a result, financial awareness for low-income young people is no better today than it was twenty years ago: to hand out 'asset welfare' without such a training programme was a major opportunity lost. That's why The Share Foundation's development of incentivised learning for young people in care is such a valuable experience, in order to show how to deliver financial education for disadvantaged young people successfully in the future. It is enabling a 700% return to the public purse on the cost of (philanthropically-supplied) incentives by providing a significant reduction in NEET status for adult care leavers who participate in this training programme (this is more than the Government's total commitment in operating the Junior ISA & CTF schemes for looked-after young people).

* <https://www.ctfambassadors.org.uk/impact>

Our proposal for new starter capital accounts for young people from low-income backgrounds

It's therefore time to plan for that future – we need a new, targeted programme for starter capital accounts going forwards. It's going to cost a fraction of the Child Trust Fund, because it would only apply to low-income young people; there would therefore be about 250,000 accounts opened for each annual cohort.

If each account received a starter payment of £500, the annual cost would be in the order of £125 million. At an appropriate stage in the young person's adolescence (probably 13-17), there would be an incentivised learning financial awareness programme which would offer them the opportunity to benefit from an additional £1,500 on an 'earn as you learn' basis. The cost would, of course, depend on the number of participants, but if a third of the recipients earned an average of £1,000 each, that would add an annual increment of c. £85 million.

All of these accounts would be HMRC-allocated, and the enacting legislation would include a 'Default Withdrawal at 21' provision to ensure that the value in the accounts was delivered to young adults at a time when it could make a major contribution to their life prospects. The accounts would all be stockmarket-invested, so it would be reasonable to expect c. 7% annual growth over twenty years. If the financial life skills programme were included, the value of accounts at maturity would therefore be in the order of £2,500 - £3,000.

With cross-party agreement to support its establishment, this major contribution to relieving child poverty and reducing NEET status for young adults could be a continuing feature of UK inter-generational rebalancing. Its annualised cost of less than £250 million would use less than 3% of the receipts from inheritance tax as at the end of this parliament.

We hope, however, that the present Government might reasonably choose to 'fill the gap' between Child Trust Funds and eligibility for the new scheme, which would involve a one-off commitment of c. £1.5 billion.

It also goes without saying that we would expect the current proposals from The Share Foundation for release of existing HMRC-allocated accounts, and for supporting incentivised learning for young people in care, to be accepted as part of the new arrangements.

The philanthropic alternative in the event of Government inaction

And what if the current Government continues to back away from relieving child poverty in this way? It's not inconceivable that the annualised cost of c. £250 million could be raised from philanthropists who believe, like Vitor Belfort (see quote at the head of this letter), that their legacy is what they do for the next generation. If this amount were raised from charitable donations in legacies, it would result in inheritance tax on their estates of £810 million (£2.25 billion x 36%) being paid as opposed to £1 billion (£2.5 billion x 40%), thus saving in tax more than three-quarters of the amount gifted to finance the scheme.

We can break the cycle of deprivation. We just need the will to do it.

Gavin Oldham OBE, Chair of Trustees, The Share Foundation