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A Fair Share of Welfare: Public Spending on Children in England

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Children in England***

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Centre for Analysis of Social Exclusion

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Save the Children works with children and their communities to provide practical assistance and by influencing policy and public opinion, to bring about positive change for children.

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Foreword

Article 4 of the United Nations Convention on the Rights of the Child obliges governments to fulfil child rights “to the maximum extent of their available resources”.

Identifying the proportion of national and other budgets devoted specifically to children is often difficult. However, this report attempts to provide a starting point, by providing a comprehensive analysis of public expenditure on services for children in England and identifying trends in expenditure at a national and local level.

Public services are particularly important for the poorest and most vulnerable children and therefore this analysis focuses on expenditure on public services for poor children.

The research finds that since 1997 there has been a substantial increase in expenditure on public services for children. Moreover, there is evidence that poor children in particular have benefited from increased government spending.

This is very welcome news. Yet the report also suggests that there is more to do both at a national and local level to ensure that expenditure reaches the poorest children and that they benefit from increased access to services.

I hope that the analysis presented in this report will assist policy makers at a national and local level to monitor progress in tackling child poverty and to focus on the challenges ahead.

John Errington
Programme Director – Save the Children England

EXECUTIVE SUMMARY

It is increasingly recognised that improving the quality and quantity of children's services is an essential part of any long-term strategy to tackle poverty and social exclusion among children. As part of its wider programme to address child poverty in England, Save The Children commissioned this review of expenditure to examine how much is spent on children, particularly poor children, on major public services – education, health, social care, and housing – as well as social security. The results give an indication of the priority this government attaches to meeting the needs of children, in particular poor children, which can be set alongside evidence on outcomes for children, including trends in child poverty, children's health and educational outcomes.

Spending on all children

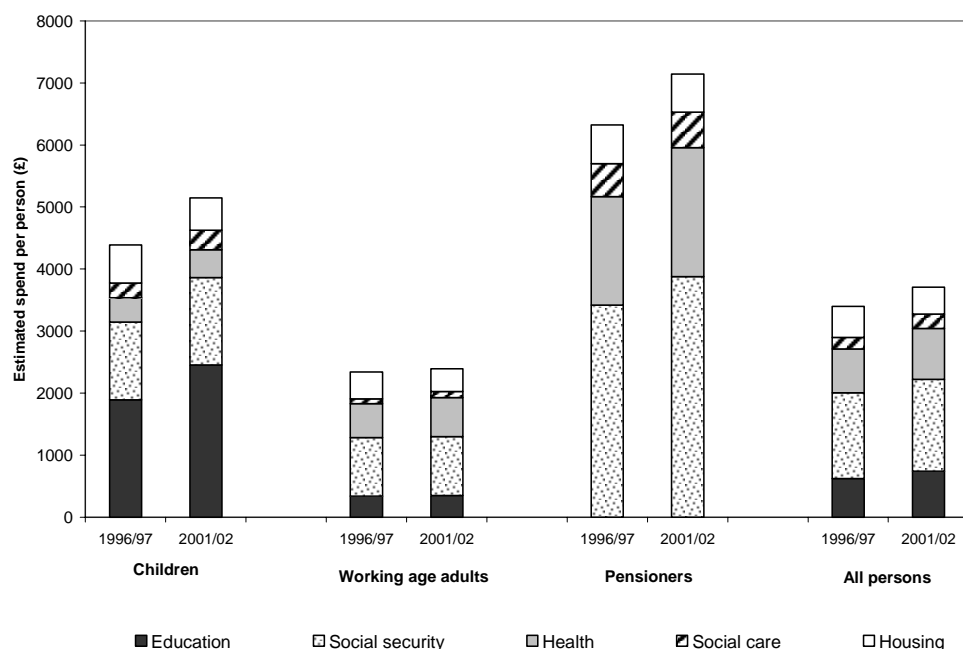
Government supports children, and families with children, in two main ways: various cash benefits and tax credits, some of which are specifically linked to having children and free or heavily subsidised provision of public services, such as education, health care, and social care. The Figure below shows that, on average, the government spends around £5,000 per child on public services. Around half of this is on education, a quarter on social security benefits, and a quarter on health, social care, and housing. Overall, per capita spending on children is around twice as great as spending on working age adults, but two thirds of that on pensioners.

The balance of spending is also very different between age groups. Most education spending is on children, whilst the majority of health care spending is on older people. Social security, social care, and housing also favour pensioners, though children benefit more from these services than working age adults. This pattern of spending largely reflects life-cycle factors - the need for certain services is concentrated at particular points in people's lifetime. But, the need for services is also affected by people's socio-economic circumstances, in particular their income, and by government policies that may explicitly favour certain groups in otherwise similar circumstances.

Since Labour came into power in 1997, there has been a substantial increase in public expenditure on public services, especially since 1999/00. Children appear to have benefited most from this increase in expenditure. Public spending per child grew by almost 20 per cent in real terms between 1996/97 and 2001/02, compared to an increase of just 2 per cent for working age adults and around 13 per cent for pensioners.

Two factors explain why children have done relatively well. Firstly, changes in the balance of spending within individual spending areas have tended to favour children. In the case of education, there has been an increase in the share spent on schools and a corresponding reduction in the share spent on higher education. In the case of social security, tax and benefit policies have strongly favoured children and pensioners, relative to working age adults. In the case of social care, a greater share of the budget is now spent on children's services than in 1996/97. Secondly, the education budget has grown at a faster rate than average; this favours children who are the main beneficiaries of spending on education. Increases in health care spending since 2001/02, which favour older people, are likely to have cancelled out the difference in spending growth between children and pensioners.

Spending on children relative to other age groups, 1996/97-2001/02



Source: based on Tables 17 and 18 of main report.

Some international comparisons of spending on children are possible for education and social security – the two most important public services for children. OECD figures suggest that spending on education in the UK is a little below the average for other developed countries and lower than in most EU countries. Spending per pupil on pre-school education is relatively high, but spending primary education is relatively low. A recent study of the child support package in 22 developed countries shows that the UK tax and benefit system is one of the most generous for families on low earnings – second only to the US – and fairly generous to non-working families – seventh out of 22 - although the latter is quite sensitive to the treatment of housing costs.

Spending on poor children

Various mechanisms ensure that spending is skewed in favour of poorer families, including means-testing of benefits, rationing of certain services, needs-related provision or funding of other services, and special initiatives targeted at the most deprived areas. Overall, estimated spending on poor children – those living in families in receipt of Income Support or income-based Job-Seeker's Allowance – is, on average, twice as great as on non-poor children (see Table below). All public services are pro-poor, but the degree of this pro-poor bias is, not surprisingly, greatest in the case of social security and housing, which are targeted at children living in the poorest households. These two services account for between 70-90 per cent of the difference in spending between poor and non-poor children. Social care is also likely to be strongly pro-poor if, as seems likely, much of the additional spending in more deprived areas is on children from poorer households. Universal services, such as health care and education, are less pro-poor.

Value of public spending on benefits and services for poor children, 2001/02

<i>(£s per person, 2001/02 prices)¹</i>	Poor children	Non-poor children	Ratio of spending on poor to non- poor children
Education	2570-3110	2310-2430	1.06-1.4
Social security	2480-3400	680-910	3.7-3.8
Health	480-610	430-460	1.03-1.4
Social care	370-810	200-300	1.2-4.1
Housing	1220-1650	180-230	6.8-7.0
Total	7110-9570	3790-4330	1.9-2.2

1. Source: see Table 19 of main report

Furthermore, spending on children is likely to have become more pro-poor over the period since 1997. Although all households with children have benefited to some degree from recent changes in tax and benefit policies, the increases have been greatest (in absolute and proportional terms) for those families on relatively low incomes, especially those with young children. In the case of education and health, recent changes to national funding formulae have ensured that a greater share of funding is allocated to children living in the most deprived areas. For example, the difference in average spending per child on education between the least and most deprived authorities increased from 16 per cent in 1997/98 to 24 per cent in 2003/04, though the impact on poor children may be limited (see below). The biggest policy change in relation to housing subsidies was the removal of MIRAS, which most adversely affected better-off households with children, but had relatively little impact on poor families.

The proliferation of special initiatives under this Government also has implications for the amount of public spending on poor children, because many of these programmes are aimed at improving the outcomes of children living in the most deprived areas. Together, the child-focused initiatives identified in this report add up to an annual equivalent expenditure of up to £2.5bn or around 5% of the total value of public spending on children. This figure underestimates their importance to certain groups of children, including those children living in the most deprived areas and, in particular, pre-school children in poor areas, who are the target group for many of these initiatives. Furthermore, the importance of these initiatives should not only be judged by the size of their budget, but also by possible knock-on effects on the efficiency of mainstream services in these areas.

Some concerns

So far, the picture presented is a fairly positive one from a children's perspective. Public expenditure on children is higher-than-average and has been rising at a faster rate since 1997 than spending on other age groups. In addition, spending is heavily skewed in favour of the poorest children, who have around twice as much spent on them as other children, and it is likely that this pro-poor bias has increased in recent years.

However, outcomes for the poorest children are still very much worse than for children from better-off families. Although spending is skewed towards poorer children, more clearly needs to be done to reduce inequalities in income, and in educational, health, and other outcomes.

Arguably, spending is still not sufficiently skewed towards children with the greatest needs, whilst recognising that higher spending is not the only answer to many of these problems.

There are also concerns about how much of the additional resources allocated to poorer children are reaching these children. In the case of **education**, the most deprived authorities seem to be more constrained in the priority they are able to give to spending on education, possibly because they face greater pressures on other budgets. Perhaps more importantly, changes to the national funding formulae for education may have little impact on the amount spent on poor children unless there are more effective mechanisms in place at the local level to ensure that additional funding reaches the poorest children within each authority. There is an apparent inconsistency in the current system of funding, as local funding formulae for schools generally give less weight to social needs than the national funding formula. As a result, schools in the poorest neighbourhoods are not receiving sufficient resources to meet the educational needs of children living in their catchment area. Further research is also needed into how schools in poor neighbourhoods use the additional resources they do receive and, in particular, how much of any extra funding is spent in ways that directly benefit the poorest children within these schools.

In the case of **social security**, not all households with children will have benefited from recent changes in the tax and benefit system, either because they are not claiming benefits to which they are entitled or because they have been adversely affected by specific tax rises. More generally, there is a difficult balance to strike between income-related benefits – which are more closely targeted at the poor – and universal benefits – which are more popular, have higher take-up rates, and fewer disincentive effects.

In the case of **health**, the Department of Health's own estimates suggest that school-age children have not benefited from recent increases in health care spending (though pre-school children have). There is also some – albeit fairly weak – evidence that children from low income households may be using fewer health services in relation to needs than other children.

In the case of **social care**, there are substantial local variations in the amount spent per looked after child, which varies by a factor or two or more between the highest and lowest spending authorities. Although there may be good reasons for spending more in some areas than others, it seems hard to justify this degree of variation. Thus, in some areas it seems likely that some of our most vulnerable children are not receiving the services they need.

I. INTRODUCTION

One of this Government's most ambitious targets is to eliminate child poverty within a generation. When this commitment was made in 1999, between one on three and one in four children in Great Britain were living in poor households¹ (Department of Social Security, 2001). Whilst progress towards this target is often assessed solely in terms of raising the (relative) cash incomes of poor families, it is increasingly recognised that improving the quality and quantity of children's services is an essential part of any long-term strategy to tackle poverty and social exclusion among children. As part of its wider programme to address child poverty in England, Save The Children has commissioned this review of expenditure to examine how much is spent on children, particularly poor children, on major public services – education, health, social care, and housing – as well as social security.

The specific objectives of this review are:

- to review key areas of public expenditure on children between 1997 and 2003, including education, social security, health, social care, and housing. How much does Government spend on children and how has this changed since Labour came to power? Are local authorities prioritising children's services within their budgets?
- to examine the distribution of expenditure between children at a national and local level: how much more are poor children receiving from central government allocations, including spending on special anti-poverty initiatives, such as Sure Start? How much funding is being allocated to children's services in more deprived local authorities to meet the additional needs in these areas?
- to make comparisons, where possible, with government expenditure on children's services in other countries;
- to establish a baseline against which to assess future trends in public expenditure and budget allocations in relation to children in poverty.

This initial attempt to produce a comprehensive analysis of public spending on children also provides the basis for undertaking a more formal children's budget for England, identifying some of the difficulties and how these might be addressed.

The focus of this report is on the amount government spends on children, rather than the outcomes of that spending. Higher spending does not necessarily mean that outcomes will improve; much depends on how the additional money is used. Nor does higher spending on poor children ensure that their outcomes will be as good as for other children, because of the extra costs and challenges involved in providing services in more deprived areas. Indeed, we know that substantial inequalities persist in spite of the additional resources directed at the poorest families and the schools and areas where they live. Nevertheless, an analysis of public spending does give an indication of the priority this government attaches to meeting the needs of children, in particular poor children. This can be set alongside evidence on outcomes for children, including trends in child poverty, children's health and educational outcomes, which are examined elsewhere (e.g. Palmer, Rahman, and Kenway, 2002; Bradshaw, 2002; Adelman, Middleton, and Ashworth, 2003; Sutherland, Sefton, and Piachaud, 2003).

¹ Where the poverty line is defined as 60 per cent of the median of net equivalised household incomes before or after housing costs.

There are at least two economic rationale for government support to families with children. Firstly, there is an equity argument: families with children often have lower incomes relative to their needs, both because of the direct costs of providing for children and because the need to look after children usually means that the family will incur childcare costs or be constrained in the amount of paid work they can do.

Secondly, there is an efficiency argument: evidence shows that children who grow up in low-income families are more likely than better-off children to have poorer adult outcomes – to be unemployed, low-skilled, less healthy, and commit more crime. It, therefore, makes sense to make some investment in supporting children now in order to avoid some of these problems in future years (Adam, Brewer, and Reed, 2002).

Government supports children, and families with children, in two main ways: firstly, various cash benefits and tax credits, some of which are specifically linked to having children and, secondly, free or heavily subsidised provision of public services, such as education, health care, and social care. Some of these cash and in-kind benefits are universal. For example, all families with children are entitled to receive Child Benefit and to send their child to a state-funded school. But, various mechanisms ensure that support is skewed in favour of poorer families, including:

- means-testing of certain cash benefits and tax credits;
- rationing of services, such as social housing;
- needs-related provision and needs-related funding formulae for public services, which favours children (and adults) in more deprived areas, where the need for services is generally greater;
- special programmes, such as Sure Start, that are often targeted at the most deprived areas;

In addition, households near the top of the income distribution make greater use of private alternatives, such as private schools and private health care, which reduces the amount of public spending on ‘rich’ children relative to children from less well-off households.

The next section describes the methodology used to examine public spending on children and some of the problems inherent in this type of analysis. Section III provides some background information on the demography of England and other factors that affect children’s need for services. Section IV examines overall trends in public expenditure in England. Sections V-IX look in more detail at the five major areas of spending in order of their importance for children (in expenditure terms): education, social security, health care, social services, and housing. Each section attempts to estimate the amount spent on children, in particular poor children, and how this has changed since 1997. Section X looks at special or targeted initiatives directed at poor children and assesses their importance relative to mainstream funding of public services. The final section pulls together the analyses of individual spending areas in order to generate estimates of overall spending on children in England.

II. APPROACH

For some services, it is relatively straightforward to apportion public spending on children. Services, such as schools, are provided exclusively for children, whilst in the case of social care, children's services are clearly delineated from services provided to other client groups. But, in other cases, it is much harder to determine exactly how much is spent on children.

Some services, such as housing and social security are provided to households or families, rather than individuals, which raises difficult issues around if and how to apportion the benefits between children and other members of the household. More than other services, housing raises the additional complication of how to treat alternative forms of government subsidy (other than direct public expenditure) - for example sub-market rents in the social rented sector.

Other services, such as health care, are mostly person-specific (with the exception of public health), but children's services are not always clearly delineated, as they are in the case of social care. We know, for example, how much is spent on inpatient care in NHS hospitals, but we can only estimate how much of this is spent on children, because the facilities and many of the doctors and staff are 'shared'. In this case, administrative data on the use of different health care services is used to apportion total spending between children and adults. The development of national funding formula to distribute health care funding equitably between primary care trusts (formerly health authorities) means that quite a lot of work has already been done to estimate relative spending on different groups of people, in particular age-related differences – and this report draws on the results of some of this work.

The next step is to examine the distribution of spending between poor children and better-off children (see below for definition of poor children). Two different approaches are taken in this study. The first is to look at local variations in the funding of public services. Through national funding formulae and special targeted initiatives, central government allocates higher levels of funding (per capita or per pupil) to more deprived areas to reflect the additional needs of people living in these areas. Of course, not all poor children live in deprived areas and not all children living in deprived areas are poor. Nevertheless, comparing the amount of funding allocated to the least and most deprived areas does give an indication of the extent to which public spending on different services is skewed towards the poor.

Whilst central government allocates a certain amount to each local authority for education, a certain amount for children's social services, and so on for each service block, local authorities are free to decide how they spend their overall allocation. They could, for example, spend more than their allocated amount on services for older people and less than their allocated amount on education and other children's services (or vice-versa). Comparing the amount local authorities are allocated by central government for particular services and the amount they actually spend on those services provides additional information on the priority local authorities attach to services for children relative to other client groups.

The second approach is to use data from large scale household surveys, such as the General Household Survey (GHS). The GHS collects information on the characteristics of respondents (including their age and household income) and their use of public services (for example, whether they have had an in-patient stay in hospital over the last year or been to see their GP in the last two weeks). Parents answer these questions on behalf of their children. Analysis of these data can, therefore, be used to compare the use of health care services by children in lower and higher income groups. A separate survey, the Family Resources

Survey, contains detailed information on the receipt of different types of benefit and tax credit, which can be used to analyse the distributional effects of the tax and benefit system.

Wherever possible, we have sought to make comparisons between age groups, between countries, and over time. How much is spent on children relative to working age adults or pensioners? Has the amount or share of public expenditure on children been rising or falling in recent years? To what extent is spending on children skewed towards those living in poor households? How does public spending on children (or households with children) in England compare with other developed countries?

It was not possible to apply a consistent definition of children throughout this report, because of differences in the way information is broken down in different spending areas. For example, health care data tends to group children up to and including the age of 15, whereas DfES data on spending per pupil is presented for all 3-19 year olds. Where possible, for example in our own analysis of survey data, we focus on under 16 year olds.

Children are defined as poor either in terms of low household income (in the poorest fifth of households) or in terms of being in a household that is in receipt of Income Support or income-based Job Seeker's Allowance (JSA). Whilst there is a lot of overlap between the two groups, they are not synonymous: more than half the families in the poorest fifth of households are not in receipt of Income Support or income-based JSA. The former is a more complete measure and is the standard used in the official income statistics. But, detailed information on household incomes is only available in large scale household surveys, which we use for some, but not all, our analyses. In the absence of full income data, being in receipt of Income Support or income-based JSA is a useful proxy for low household income; administrative data is available on the proportion of children living in families in receipt of income support or income-based JSA by local authority, which is used to analyse the distributional impact of differences in funding between more and less deprived areas. This is the definition we use in the concluding chapter in order to compare spending on poor children across services on a like-for-like basis.

Poor or deprived areas are defined using the Government's Index of Multiple Deprivation (2000), which consists of a series of deprivation indices at ward and local authority level, including an index of child poverty, as well as an overall index of deprivation. Local authorities are ranked according to the average deprivation score for wards in their area. For certain analyses, authorities are grouped into decile groups in order to compare the amount of funding going to the 10 per cent least deprived relative to the 10 per cent most deprived authorities.

III. DEMOGRAPHY AND SOCIO-ECONOMIC FACTORS

Table 1 provides an age breakdown of the population, based on Census data. In 2001, children made up a fifth of the total population of England. The age structure of the population has remained more or less unchanged throughout the 1990s, so changes in the overall balance of spending between age groups over this period cannot be attributed to changes in the age structure of the population. However, according to official projections, the number and proportion of children is expected to decline over the next twenty years – from just over 20 per cent in 2001 to 18 per cent in 2021, with a corresponding rise in the pensioner population. This will have implications for the level and distribution of public expenditure on benefits and public services in future years (Carderelli, Sefton and Kotlikoff, 2000).

Table 1: Demographic structure of population in England, 1991-2021

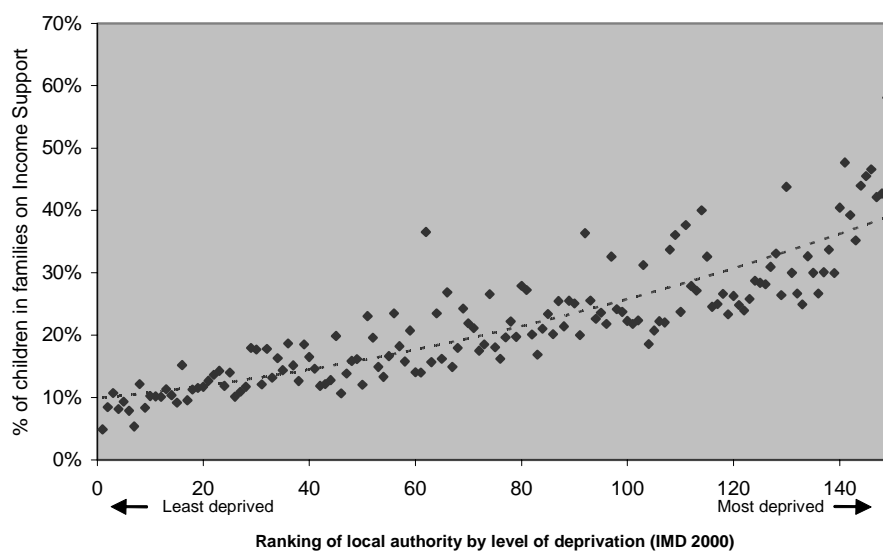
Age band	1991	1996	2001	2021
<i>Population (millions)</i>				
Under 16	9,658	9,966	9,893	9,491
16-64	30,630	30,725	31,654	33,006
65 and over	7,587	7,710	7,822	10,229
Total:	47,875	48,402	49,370	52,725
<i>Share of total population</i>				
Under 16	20.2%	20.6%	20.0%	18.0%
16-64	64.0%	63.5%	64.1%	62.6%
65 and over	15.8%	15.9%	15.8%	19.4%
Total:	100.0%	100.0%	100.0%	100.0%

Source: own analysis based on data from Office for National Statistics (2003)

The size of the child population (as a share of the local population) varies relatively little between local authorities. For all but 16 local education authorities (out of 150), the proportion of children lies within plus or minus 3 percentage points of the average (i.e. between 17 and 23 per cent). The most notable exceptions are Westminster (14%), Kensington and Chelsea (16%), Hammersmith and Fulham (16%) and Wandsworth (16%) on the low side and Blackburn with Darwen (25%) and Newham (26%) on the high side. This will affect the share of expenditure going to children in these areas.

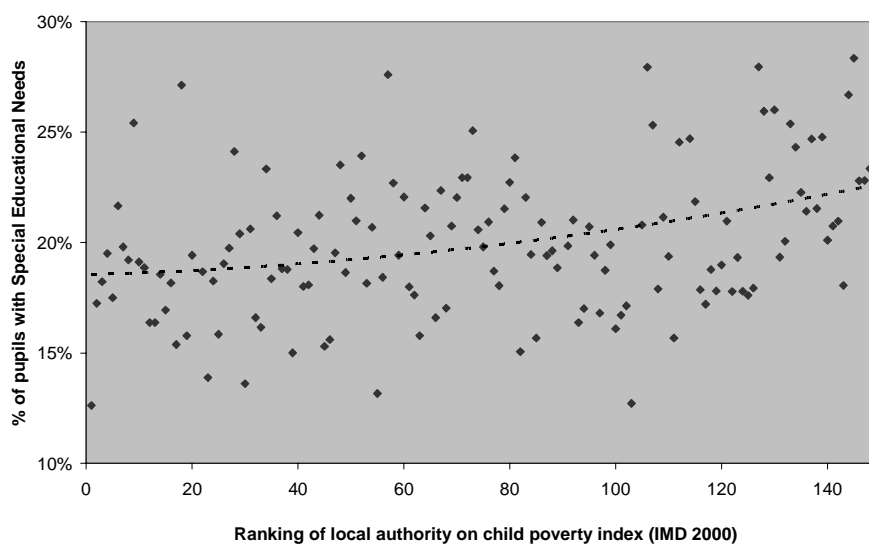
People's use of public services is affected by their socio-economic, as well as demographic, characteristics. Not surprisingly, children living in the most deprived areas are more likely to be living in poverty than children in the least deprived areas (see Figure 1). And, as shown in Figures 2 to 5, children in more deprived areas are also more likely to have special educational needs, poor health, poor housing and be looked after by social services, all of which places extra demands on services in these areas (see Annex A for local authority data on a number of key indicators of need, ranked by level of deprivation.) Other things being equal, public expenditure on children should be higher in these areas to match these greater needs, something that is explicitly allowed for in the funding formulae that largely determine the allocation of resources between areas. Annex B provides a brief description of the local government finance system. The impact of this on the allocation of funding for individual services is examined in later sections.

Figure 1: Extent of child poverty by local authority, 2001/02-2002/03



Source: DfES's spreadsheet model that underlies the Education Formula Spending Share that forms part of the 2003-04 local government settlement. This is available on the DfES website: <http://www.dfes.gov.uk/efsg/docs/EducationFundingModelvFINALsettlement.xls>

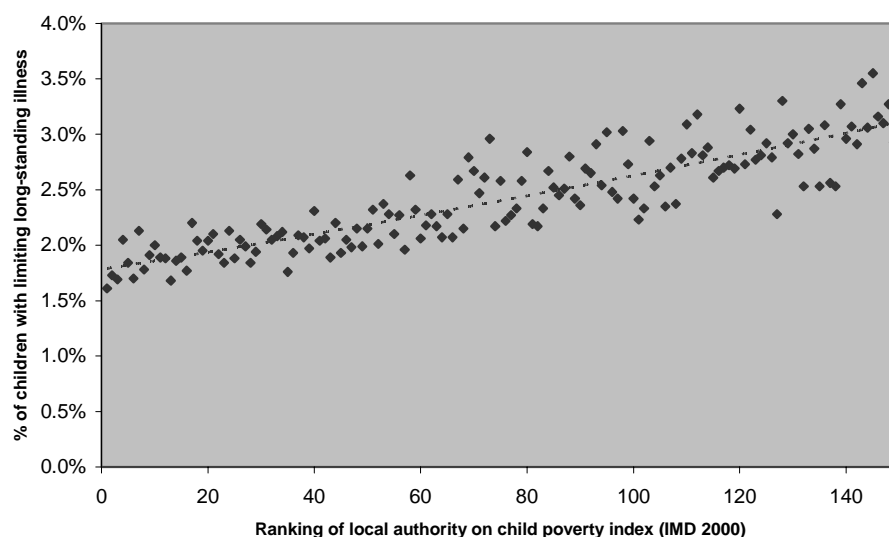
Figure 2: Pupils with Special Educational Needs by level of deprivation^{1,2}, 2002



Source: Department for Education and Skills (2002)

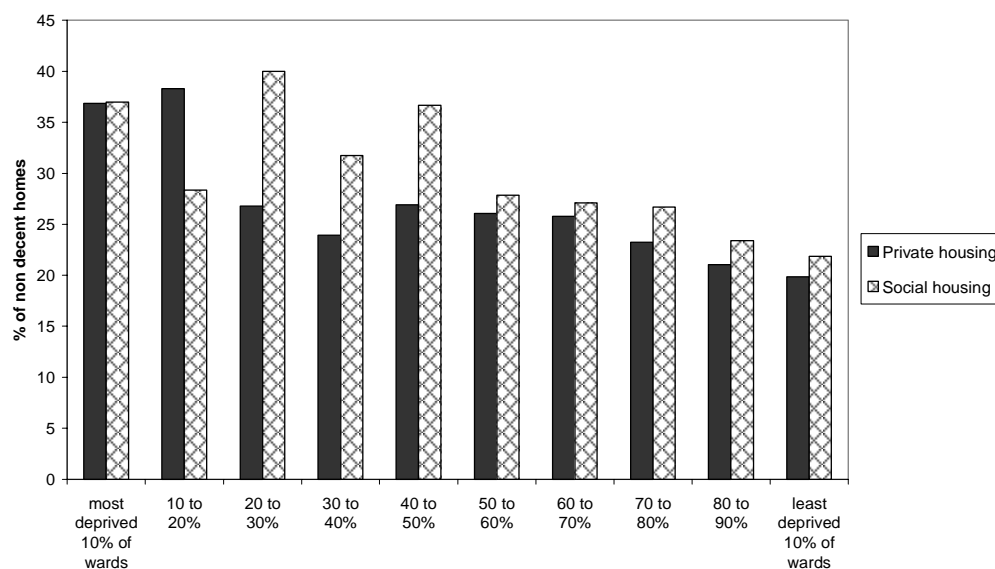
1. Includes non-statemented pupils with special educational needs.
2. Policy towards children with special educational needs varies enormously across the country and is suspiciously poorly related other measures of need or disadvantage (e.g. West, 2000), which might explain the rather weak correlation in Figure 2.

Figure 3: Children with limiting long-standing illness by level of deprivation



Source: FSS indicator data for the Local Government Finance Settlement 2003/04. Available on the ODPM website: (<http://www.local.odpm.gov.uk/finance/0304/tabs034.htm>).

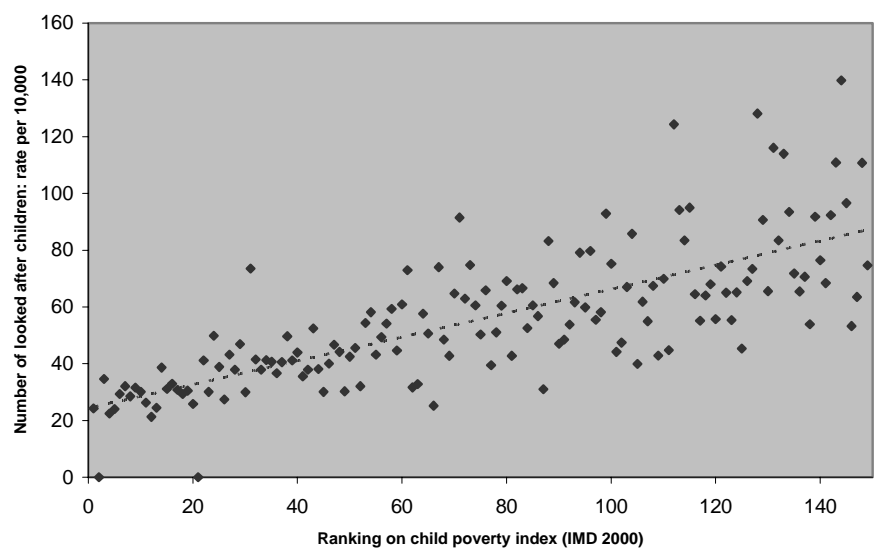
Figure 4: Non-decent homes by level of deprivation, 2001
(dwelling occupied by households with children)



Source: 2001 English House Condition Survey. Data kindly provided on request by ODPM.

1. A decent home is one that is fit for habitation, is in a reasonable state of repair, has reasonably modern facilities and services, and provides a reasonable degree of thermal comfort. Dwellings that fail on any one of these criteria are classified as non-decent.

Figure 5: Looked after children by level of deprivation, 2001



Source: Department of Health (2002)

IV. OVERALL EXPENDITURE

Table 2 shows total public spending per head in England, broken down by service. These figures are taken from H M Treasury's Public Expenditure Statistical Analyses, which is the source most commonly used for examining overall government expenditure in the UK. In 2001/02, England spent an average of just over £5,000 per person. The three largest items of expenditure are social security, health and personal social services, and education. Together, these account for over three quarters of all public spending. Along with housing, these are the services we examine in more detail in this report. As we see later on, these expenditure figures under-state the relative importance of public housing subsidies, because a substantial share of these are provided in-kind and because the main cash subsidy, Housing Benefit, is included under the social security heading.

Table 2: Trends in Public Expenditure in England, 1993/4-2001/02

	<i>Spend per head (£s) in 2001-02 prices</i>			<i>Growth in spend per head (%)</i>		<i>Share of total spending(%)</i>			<i>As % of GDP² (%)</i>		
	93/94	97/98	01/02	93/4- 97/8	97/8- 01/2	93/94	97/98	01/02	93/94	97/98	01/02
Education	661	672	816	2	21	15.4	15.5	16.3	5.1	4.5	4.9
Health/PSS ³	868	977	1224	13	25	20.3	22.5	24.5	6.7	6.6	7.3
Roads/transport	170	172	195	1	13	4.0	4.0	3.9	1.8	1.1	1.1
Housing	98	61	62	-38	2	2.3	1.4	1.2	0.8	0.5	0.5
Env. services	170	143	176	-16	23	4.0	3.3	3.5	1.2	1.0	1.1
Law and order	300	304	379	2	24	7.0	7.0	7.6	2.3	2.1	2.3
Trade/industry	121	99	125	-18	26	2.8	2.3	2.5	1.6	1.1	1.2
Agriculture	70	53	76	-24	44	1.6	1.2	1.5	0.6	0.6	0.5
Culture & sport	56	76	93	35	22	1.3	1.8	1.9	0.5	0.5	0.5
Social security ¹	1773	1747	1809	-1	4	41.4	40.2	36.1	13.2	11.8	11.5
Miscellaneous	0	36	50	-	37	-	0.8	1.0	1.2	1.0	1.0
Total	4285	4342	5005	1	15	100	100	100	38.9	33.6	35.1

Source: H M Treasury's Public Expenditure Statistical Analyses 2003-04 and previous years.

1. Excluding tax credits.
2. Figures are for UK.
3. Stands for personal social services.

Between 1997/98 and 2001/02, public spending per head increased by 15 per cent in real terms, which is substantially greater than the growth in spending over the four previous years – just 1 per cent in real terms between 1993/94 and 1997/98. This is also faster than the growth in GDP over this more recent period, so overall spending increased as a proportion of GDP – from 33.6 in 1997/98 to 35.1 per cent in 2001/02 – though it is still at a lower level than it was in 1993/94. Only in the case of health and personal social services, is current expenditure a greater proportion of GDP than in the early 1990s.

Virtually all the growth in spending since 1997 has been concentrated in the latter half of the period. Spending on education, health, and social services has grown at a faster rate than overall public spending. The share spent on education has, therefore, risen from 15.5 per cent in 1997/98 to 16.3 per cent in 2001/02 and the share spent on health and social care has risen from 22.5 per cent to 24.5 per cent. By contrast, the share spent on social security has fallen

from 41.4 per cent to 36.1 per cent. This is what we might expect during a period of falling unemployment. But, it is slightly misleading, because it does not take into account the increase in tax credits over this period, which are not counted as social security expenditure. Later in this report, we estimate that the total value of benefits and tax credits rose by 9 per cent in real terms between 1997/98 and 2001/02 – significantly greater than the figure of 4 per cent in Table 2, though still less than the overall growth in public spending over this period.

V. EDUCATION

Overall spending

Spending on school and pre-school education increased by 38 per cent in real terms between 1996-7 and 2002-03². This is greater than the rise in overall government spending over the same period and greater than the rise in spending on further and higher education (see Table 3).

The largest increase has been in spending on pre-school children (68 per cent in real terms), compared with a rise of around 25 per cent on both primary and secondary schools. This is due to the rapid expansion in state-funded nursery places for 3 and 4 year olds (see below). Capital spending on schools has also increased substantially over this period (by 86 per cent). This increase in spending was concentrated in the second half of this period (from 1999/00 onwards).

Table 3: Education spending in England, 1996/97-2002/03

	1996/97	1999/00	2002/03 (estimates)	% change: 1996/97- 2002/03
<i>(£m in real terms, 2002/03 prices)</i>				
Schools:	21784	23992	30024	38%
Under fives	1889	2244	3169	68%
Primary	7437	7785	9269	25%
Secondary	9324	9811	11945	28%
Other	1952	2717	3447	77%
Capital	1182	1435	2195	86%
Further and higher education:	10628	10460	11883	12%
FE and adult learning	3821	3755	5146	35%
Higher education	5179	5353	5392	4%
Student support	1628	1352	1345	-17%
Administration, inspection, and miscellaneous costs	1446	1108	1479	+2%
Total:	33857	35561	43387	+28%

Source: DfES's "Education and Training Expenditure Since 1993-94", Table 6b

Table 4 shows the level of spending per child. The population of pre-school and primary school age children fell slightly between 1996 and 2002, whilst the population of secondary school age children rose slightly over the same period. Therefore, spending per child on "under fives" and primary school children has risen at an even faster rate than overall spending on these groups and vice-versa for secondary school children. In 2002/03, the government was spending just under £2,700 per child on schools.

² This does not include expenditure on childcare tax credits, which are covered in the section on social security.

Table 4: Education spending per child¹, 1996/97-2002/03

	1996/97	2002/03	% change: 1996/97- 2002/03
<i>(£s in real terms, 2002/03 prices)</i>			
<i>Spend per child (£s in 2002/03 prices)²:</i>			
Under fives	1470	2690	82%
Primary	1930	2490	29%
Secondary	2600	3090	19%
All children³:	1950	2660	37%

Source: own estimates using expenditure figures from the DfES's "Education and Training Since 1993-94" and Census-based population estimates from the ONS website.

1. Spend per child is averaged over all 3-4 year olds (for "under fives"), all 5-10 year olds (for "primary"), all 11-16 year olds (for secondary schools), and all 0-16 year olds (for "all children").
2. Figures are rounded to the nearest £10.
3. Includes "other expenditure" on schools in Table 3, which is not broken down between primary and secondary schools (e.g. meals, transport, teacher development). Excludes the Educational Maintenance Allowance.

Spending per child is still higher in secondary schools than in primary schools, though the difference is not as large as it was in 1997. According to separate estimates published by the DfES, the differential in spending per pupil (as opposed to spending per child) between state-maintained pre-primary/primary school pupils and secondary school pupils has also fallen - from 35 per cent in 1996/97 to around 20 per cent in 2001/02.

The increase in spending per child on "under fives" is partly due to an increase in nursery places for 3 year olds. In January 2000 (when data on all sectors, including the private and voluntary sectors, was first collected) there were 526,900 places for 3 year olds. By January 2003, there were 574,400 places – an increase of around 10 per cent. Participation rates among 3 year olds went up from 86 per cent of 3 year olds to 99 per cent over this period. However, most of the increase in expenditure is due to the rise in the proportion of existing nursery places that are publicly funded (i.e. places that were previously being paid for privately, but are now being funded in part or in full by government). This increased from 271,400 in January 2000 (or 44 per cent of all three year olds) to 510,400 (or 88 per cent of all 3 year olds) in January 2003.

Spending on poor children

There are several ways in which spending on schools is skewed towards poorer children or poorer areas and at least one factor that works in the opposite direction. Firstly, and most importantly, the formula for allocating funding to local authorities – the education 'block' - includes a specific top-up to reflect the additional demands on schools in more deprived areas, such as the cost of learning support assistants, as well as an adjustment to cover the cost of providing free school meals to children from families on income support (DfES, 2003a). Annex B provides more detail on local funding formulae. Local authorities decide how much of their total allocation to spend on schools and are required to pass on most of this – at least 85% - direct to schools using a formula approved by central government, which must include a small element for social needs and extra for children with special needs.

Secondly, government sets aside a small, but growing, part of the schools budget – currently around 16% - for central initiatives. The largest element of this is the Standards Fund, which provides grants direct to schools for school improvement, literacy and numeracy hours, and

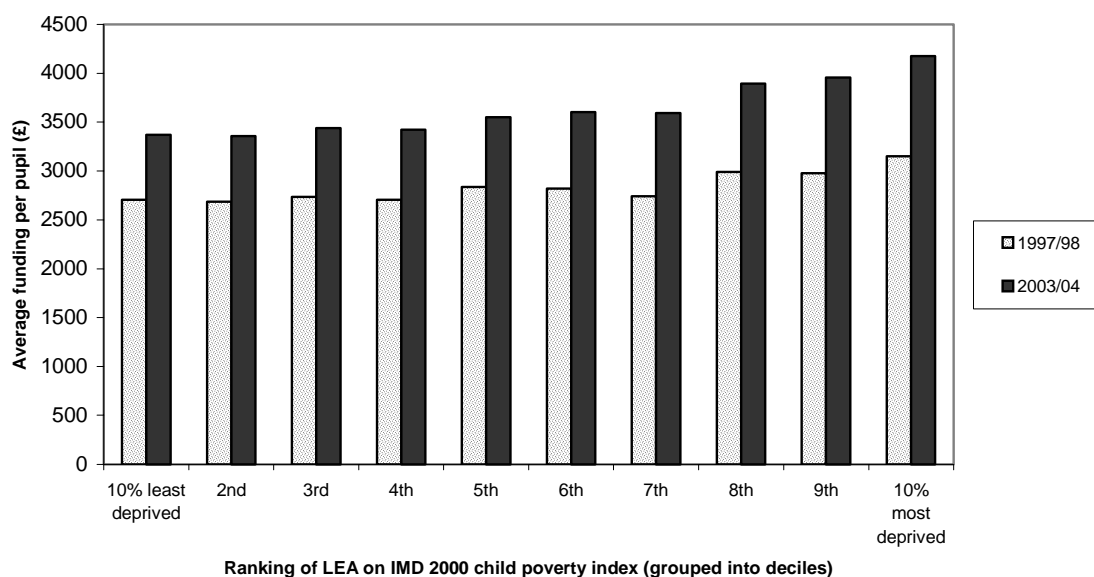
extra funds to raise the achievement of pupils from certain minority ethnic groups. Like mainstream funding, this tends to be skewed in favour of poorer areas. There are also a series of smaller initiatives that are specifically directed at schools in the most deprived areas, such as Education Action Zones and the Excellence in Cities programme. These initiatives are discussed further in Section X of this report. Though relatively small in budgetary terms – spending on EAZs, for example, was around £60m in 2002/03 – they are intended to have a much bigger impact on schools in these areas through increasing the efficiency of mainstream services.

On the other hand, children from better-off families have higher staying-on rates post-16. Based on data from the 2002 Youth Cohort Study, 82 per cent of children with fathers in ‘higher or lower professional’ occupations continued into full-time education at age 16, compared to 64 per cent of those with fathers in lower social class groups. One reason is that children from lower social classes do less well in their GCSEs, which has a strong influence on the probability of continuing in full-time education. But, differences between social classes remain even after controlling for children’s performance in their GCSEs/ GNVQs, implying that low social class acts as a barrier to continuing in full-time education over and above its effect on a child’s prior academic achievements. Other things being equal, this means that more deprived areas will receive a less than proportionate share of expenditure on post-compulsory education.

Figure 6 shows how revenue expenditure, including local and most central spending, varies between local authorities that rank lowest and highest on the child deprivation index. As we would expect, funding per pupil is generally higher in more deprived authorities. In 2003/04, funding per pupil was, on average, 24 per cent higher in the 10 per cent most deprived authorities than in the 10 per cent least deprived authorities. However, there is quite a lot of variation around this trend (see Figure 7). Part of this is the London effect: authorities in high cost areas, principally London, receive an additional top-up – the Area Cost Adjustment – to allow for the higher salary costs that schools face in areas of high labour demand

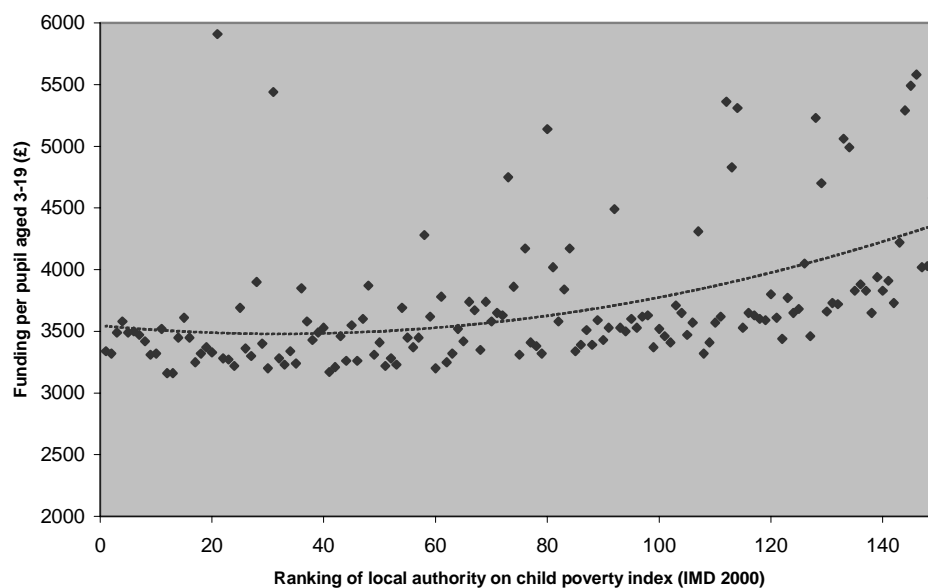
Education spending has become more skewed in favour of poorer areas in recent years. Between 1997/98 and 2003/04, the increase in funding per pupil was, on average, greater in more deprived authorities – a 32 per cent real increase in the 10 per cent most deprived authorities, compared with a 25 per cent increase in the 10 per cent least deprived authorities. In 1997/98, average funding per pupil in the 10 per cent most deprived authorities was 16 per cent greater than in the 10 per cent least deprived authorities; by 2003/04, this differential had increased to 24 per cent.

Figure 6: Average funding per pupil by level of deprivation, 1997/98-2003/04



Source: own analysis using DfES estimates of funding per pupil (aged 3-19) by local authority kindly provided by the DfES (see notes overleaf).

Figure 7: Variation in funding per pupil by local authority, 2003-04



Source: estimates of funding per pupil by local authority were kindly provided by the DfES.

Notes to Figures 6 and 7:

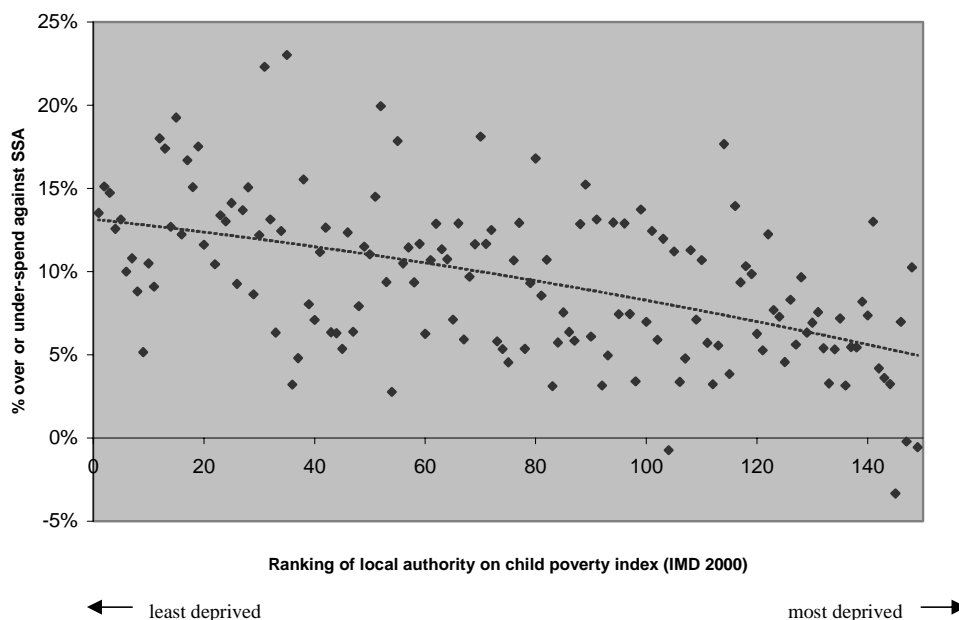
1. *Estimates reflect education SSA/ EFS settlement (all sub-blocks), plus revenue grants in DfES's Departmental Expenditure Limits relevant to EFS pupils aged 3-19.*
2. *Figures exclude Educational Maintenance Allowances and grants not allocated at LEA level for all years and the pensions transfer to EFS and LSC for 2003-04.*
3. *The pupil numbers used to convert £m figures to £ per pupil are those underlying the SSA/ EFSS settlement, plus PLASC 3 year old maintained pupils and estimated 3-4 year olds funded through state support in maintained and other educational institutions where these are not included in the SSA pupil numbers.*
4. *1997-98 figures for LEAs subject to Local Government Reorganisation in that year have been estimated, pro-rata to their post LGR figures.*
5. *2002-03 figures are forecasts.*
6. *Real terms, 2002-03 prices, based on GDP deflators as at September 2003.*

There are at least two possible explanations. Firstly, changes to the national funding formula have given more weight to social needs; one of the concerns with the previous formula was that it did not allocate sufficient funding to the most deprived areas. Secondly, an increasing share of the schools budget in recent years has been channelled through special government initiatives, some of which are specifically targeted at more deprived areas and/or under-achieving schools or areas (see Section X). Central grants are, therefore, more skewed towards poorer areas than mainstream funding, though the differences are not as great as perhaps one might have expected. In 2003/04, central grants accounted for 16.5 per cent of total schools funding to the 10 per cent most deprived local authorities and 14.5 per cent of schools funding to the 10 per cent least deprived authorities (i.e. a difference of only two percentage points).

The size of funding increases varies between local authorities. Some of the most deprived areas, like Hackney and Newham, have received below-average increases in funding, whilst some less deprived authorities, like Kensington & Chelsea and Cumbria, have received above-average increases (see Annex C).

Although poorer areas, on average, receive a higher allocation for education, local authorities are free to spend more or less than their allocated amount, according to the priority they choose to give to education relative to other local services. Figure 8 shows the extent to which different local authorities are under or over-spending on education relative to central government's allocation – known until 2003/04 as their Standard Spending Assessment (SSA). In 2002/03, most authorities were setting their budgets significantly above their SSA. Overall budgeted expenditure was 10% higher than the sum of their SSAs. Although there is quite a lot of variation between individual authorities, there is a clear tendency for authorities in the more deprived areas to spend less on education relative to their SSA than authorities in less deprived areas. This also appears to be the case in previous years, though the effect is not quite as strong as in 2002/03. This suggests that local authorities have been giving a relatively high priority to spending on education in recent years, but that the most deprived authorities may be more constrained in the priority they are able to give to spending on education, perhaps because they face greater pressures on other budgets.

Figure 8: Local authority budgeted spending on education relative to centrally allocated funding, 2002/03



Source: own analysis using data from ODPM's SSA Tables, ODPM(2003b).

Local authorities are required to pass most of their education budget on to schools using a local formula that must include an element for social needs. In most cases, the proportion of pupils receiving free schools meals is used as a proxy for social need. Schools in more deprived neighbourhoods should, therefore, receive more (per pupil) than schools in less deprived neighbourhoods. However, local formulae generally give less weight to social needs than the national formula. One reason is that local authorities are reluctant to treat schools differently; any allocation that moves too far away from a uniform amount per pupil is seen as unfair and would be resisted by those schools that would lose out. So, although local authorities receive more funding on account of having more poor children living in their area, only part of this additional funding is passed on to schools that contain the highest concentration of poor pupils. The schools that do well out of this system are schools in better-off neighbourhoods within the poorest authorities, whilst schools in the poorest neighbourhoods are not receiving the extra funding they require to meet the educational needs of children in their catchment area.

Schools, in turn, decide how much of their resources to use on meeting the additional educational needs of poor children, as against other priorities. Schools may spend the extra money on additional support staff to help meet the needs of pupils with additional educational needs (AEN) or they may spend the money in other ways that are of less direct benefit to AEN pupils. There is some anecdotal evidence that when budgets are tight and staff are being cut, the first to go are the support staff who are instrumental in helping children with additional or special educational needs (e.g. Don, 2003). It is very hard in practice to assess how much extra is actually spent on poor children, as opposed to children living in poor areas – and this will, in any case, vary from school to school and from pupil to pupil. A range of estimates is presented in the concluding section of this report, based on different assumptions about how the additional resources available in more deprived areas are distributed between poor and non-poor children.

International comparisons

Direct comparisons of spending in different countries are difficult, because official exchange rates do not provide a very good guide to differences in the cost of educating children – most importantly, the level of teacher’s salaries in different countries (Glennerster, 2003).

However, figures published annually by the OECD go some way to answering this question.

On average across all levels of education, spending per pupil in the UK is a little below the average for all OECD countries and lower than in most other EU countries, except for Spain, Ireland, Portugal and Greece. Spending on pre-school children is relatively high in the UK, but spending on other levels of education is relatively low, especially primary education (see Table 5).

Arguably, this reflects the low level of public spending in the UK more generally. As a percentage of total public expenditure, the share spent by the UK on pre-tertiary education (8.3 per cent) is around the median for other OECD and EU countries – about the same as France (8.0 per cent) and significantly higher than in either Italy (6.9 per cent) or Germany (6.6 per cent).

The amount a country spends on education is clearly affected by the country’s wealth, as well as the priority they give to education – the US, for example, can afford to spend much more than Turkey. Looking at the share of GDP spent on education helps to adjust for the effect of differences in countries’ wealth. UK expenditure on non-tertiary education is equivalent to 3.5 per cent of GDP, which is around the average for all OECD countries – higher than in Germany (3.0 per cent) and Italy (3.2 per cent), though lower than France (4.1 per cent).

Table 5: Annual expenditure per student in different countries by level of education, 2000

<i>(equivalent US dollars per student)</i>	Pre-school	Primary	Secondary	All sectors (incl. tertiary)	As % of total public spending¹	As % of GDP¹
United States	7980	6995	8855	10240	10.9%	3.5%
Switzerland	3114	6631	9780	9311	10.9%	3.9%
Austria	5471	6560	8578	8430	7.2%	3.8%
Norway	13170	6550	8476	8333	9.4%	3.9%
Denmark	4255	7074	7726	8302	8.8%	4.8%
Canada	6120	-	5947	7764	7.9%	3.3%
Sweden	3343	6336	6339	7524	8.9%	4.9%
Italy	5771	5973	7218	6928	6.9%	3.2%
Australia	-	4967	6894	6904	10.6%	3.9%
Germany	5138	4198	6826	6849	6.6%	3.0%
Japan	3376	5507	6266	6744	7.9%	2.7%
France	4119	4486	7636	6708	8.0%	4.1%
Belgium	3282	4310	6889	6544	6.9%	3.4%
Iceland	-	5854	6518	6446	11.3%	4.7%
Netherlands	3920	4325	5912	6125	7.0%	3.2%
Finland	3944	4317	6094	6003	7.4%	3.6%
United Kingdom	6677	3877	5991	5592	8.3%	3.4%
Spain	3370	3941	5185	5037	7.8%	3.1%
Ireland	2863	3385	4638	5016	9.3%	3.0%
Portugal	2237	3672	5349	4552	9.2%	4.2%
Korea	1949	3155	4069	4294	13.6%	3.3%
Greece	-	3318	3859	3494	6.3%	2.7%
Czech Republic	2435	1827	3239	3004	6.6%	3.0%
Hungary	2511	2245	2446	2956	8.8%	3.1%
Poland	2278	2105	m	2149	8.8%	3.8%
Slovakia	1644	1308	1927	2028	9.8%	2.7%
Mexico	1385	1291	1615	1666	16.5%	3.4%
Turkey	-	-	-	1073	-	2.4%
Country mean ²	4137	4381	5957	5736	8.9%	3.5%
OECD total ³	4477	4470	5501	6361	-	-

Source: OECD's Education at a Glance 2003, Table B1.1.

Measured in terms of exchange rates that measure what \$1 would actually buy in each country – 'purchasing power parity'

1. Excluding tertiary education.
2. Unweighted average
3. Weighted average (i.e. gives more weight to larger countries)

VI. SOCIAL SECURITY

Apportioning social security expenditure on children is problematic, because benefits and tax credits are paid to households (or at least benefit units), rather than individuals. One approach is to allocate to children those benefits and tax credits that are specifically linked to having children, including Child Benefit, the child premia within means-tested benefits, and tax credits that are only available to families with children. This measures the additional amount received by families with children compared with what they would receive if they did not have children. Changes in the value of child-contingent support provide a useful indication of the priority the government attaches to supporting families with children relative to other types of household.

Value of child related-benefits

The Department for Work and Pensions (DWP) provides a breakdown of benefit expenditure by age-based client group: children, working age adults, and those over working age. Children are allocated those benefits or elements of benefits that are specifically linked to having children. The DWP figures do not include tax credits, which were introduced in 1999 – initially, in the form of the Working Families Tax Credit³. To ensure a consistent comparison over time, the estimated value of these tax credits is, therefore, added to benefit expenditure. The DWP numbers split spending on Family Credit between children and working age adults, but we allocate all of Family Credit and Working Families Tax Credit to children on the basis that families without children were not eligible for either payment.

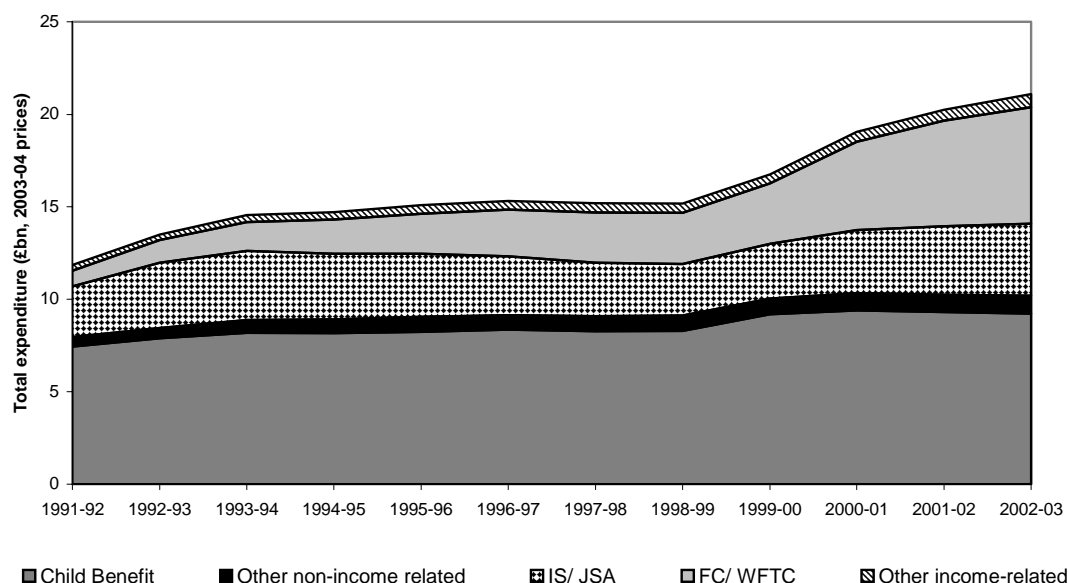
According to these estimates, government spending on child-related benefits and tax credits (in Great Britain) was around £21 billion in 2002-03 – or around 18 per cent of total expenditure on benefits and tax credits. Three programmes account for most of the expenditure on child-related benefits and tax credits: Child Benefit, child premiums within various income-related benefits (primarily Income Support), and tax credits (initially Family Credit, then the Working Families Tax Credit, and now the Working Tax Credit/ Child Tax Credit). Other non-income-related benefits, such as disability benefits, and income-related benefits, such as Housing Benefit, account for less than 10 per cent of total spending.

Overall spending on child-contingent support was relatively flat in real terms in the first part of the 1990s, but has risen sharply since 1996/97 - an increase of 38 per cent in real terms (see Figure 9). Most of this increase has occurred since 1998/9, largely because of the new tax credits, although increases in Child Benefit rates have also contributed. The impact of policy changes since 1999 is nearly twice as large as the impact of policy changes in the preceding two decades. Prior to 1999, non-income-related benefits (mainly child benefit) accounted for the majority of child-contingent support. However, the growth in child-contingent support since the early 1990s has been driven largely by increases in income-related benefits, including tax credits (Adam, Brewer, and Reed, 2002).

These figures do not include the Children's Tax Credit, which was introduced in April 2001 and is worth around twice as much as the Married Couple's Allowance (MCA) that it effectively replaced – and five times as much to those with a child under 12 months. This amounted to an additional £2.3bn in 2002-03. Unlike the MCA, it is not available to couples without children, so it could legitimately be counted as a child-contingent support.

³ Unlike Family Credit, which they replaced, tax credits are administered by Inland Revenue and counted as negative tax revenue, so they do not appear in the age-based breakdown of benefit expenditure.

Figure 9: Total spending on child-related benefits and tax credits in Great Britain, 1991/92-2002/03 (2003-04 prices)



Source: own analysis based on data from Department for Work and Pensions (2003) and Inland Revenue (2003).

Notes: Estimates of the value of WFTC payments are based on total UK payments of WFTC, adjusted to GB (pro-rata with population) and to 2003/04 prices (using GDP deflators from Budget 2003).

The growth in spending on children since 1996/97 is significantly greater than the growth in overall spending on benefits and tax credits over the same period – around 9 per cent in real terms. So the share spent on children has risen - from 14.0 per cent in 1996/97 to nearly 18 per cent in 2002/03. The share spent on pensioners has also risen, whilst the share spent on working age adults has fallen (see Table 6). The reduced share going to working age adults is partly a cyclical phenomenon – falling unemployment has reduced expenditure on the job-seeker's allowance and income support. But, changes to the tax and benefit system since 1996/97 have also favoured children and, more recently, pensioners.

Table 6: Share of spending on benefits and tax credits by age-based client group

% of total expenditure	1996/97	1999/00	2002/03 (estimates)
- children	14.0%	15.3%	17.7%
- working age adults	35.6%	31.2%	27.7%
- over working age	50.4%	53.5%	54.6%

Source: Department for Work and Pensions benefit tables, Inland Revenue Annual Report.

The main policy changes that have contributed to the rise in child-contingent support are:

- real increases in Child Benefit rates, especially for the first child;
- above-inflation increases in income support premia for children, especially for younger children (aged under 11);

- introduction of the WFTC, which compared to Family Credit, had a higher starting level, higher credits for children, especially younger children, and a lower taper rate. (WFTC has since been replaced by the Working Tax Credit and Child Tax Credit.)

Table 7 shows how recent changes in the benefits system have favoured households with children, especially younger children and smaller families, compared with households without children. Income Support rates for families with children rose by up to 25 per cent in real terms between April 1997 and April 2002, whereas the corresponding rates for single persons and childless couples have remained more or less constant. Increases in the maximum payment of tax credits have been even more generous. These increases in benefit rates for families with children are generally greater than increases in the basic state pension, although pensioners have also benefited from various new benefits, including the Winter Fuel Payment and the exemption from the TV license fee (for over 75 year olds). The distributional effects of recent policy changes are examined in more detail below, using a tax and benefit micro-simulation model.

Although lone-parent benefit and the lone-parent premium (within Income Support) were abolished in 1997, income support levels for lone parent households have still risen at a substantially higher rate than for households without children. According to analysis by the Institute for Fiscal Studies (IFS), lone parents receive more child-contingent support than couples with children, even when compared to couples with the same income. However, the share of all child-contingent support received by lone parents has fallen since 1997, while the number of children in such families has not fallen, implying that lone parents have not benefited as much from recent policy changes as couples with children (Adam, Brewer, and Reed, 2002).

Table 7: Values of Social Security Benefits (at April 2001 prices)

<i>£ per week in real terms (April 2002 prices)</i>	at April 1997	at April 2002	Change in real terms (%)
Benefits directed principally at households with children:			
Child Benefit:			
- 1 child	12.42	15.75	+26.8
- 2 children	22.54	26.30	+16.7
- 3 children	32.66	36.85	+12.8
Income Support:			
- Lone parent, 1 child (under 11)	89.53	102.20	+14.2
- Couple, 1 child (under 11)	114.75	132.90	+15.8
- Couple 2 children (under 11)	133.25	166.40	+24.9
- Couple 2 children (aged 13 and 16)	155.74	167.20	+7.4
Family credit/ WFTC			
- 1 child under 11	76.88	100.60	+30.9
- 2 children under 11	90.07	127.05	+41.1
- 2 children (aged 13 and 16)	112.67	127.80	+13.4
Benefits directed principally at non-pensioners without children:			
Income Support			
- Single 18-24	42.57	42.70	+0.3
- Single Over 25	53.79	53.95	+0.3
- Couple, No child	84.44	84.65	+0.2
Jobseekers allowance (contributory):			
- Single	55.25	53.95	-2.4
- Couple	86.73	84.65	-2.4
Incapacity Benefit (long term rate)			
- Single	70.20	70.95	+1.1
- With dependent adult	112.19	113.40	+1.1
Benefits directed principally at pensioners:			
Basic Retirement Pension:			
- Single	70.20	75.50	+7.5
- Couple	112.19	120.70	+7.6
Winter Fuel Payment			
- Single	-	3.85	+100.0
- Couple	-	5.77	+100.0

Source: Department for Work and Pensions (2002).

Spending on poor children

Many benefits, such as income support and housing benefit, are specifically targeted at poor households, so we would expect benefit spending to be strongly skewed in favour of poorer children – more so than for universal services, such as health and education.

One way of measuring the extent to which spending is directed towards poorer children is to look at the amount spent on income-related or means-tested benefits as a proportion of total benefits expenditure (although poorer children also benefit from non income-related benefits, such as Child Benefit and some income-related benefits, such as WFTC, also benefit some children who are not poor). Table 8 shows that just over half of all expenditure on child-related benefits is income-related. This is about the same as for working age adults, but much higher than for pensioners (for whom the basic state pension is by far the largest single item of expenditure).

For children, the share of income-related benefits has risen significantly since 1996/97 (from 40 per cent to 52 per cent), because of the increased generosity of the Working Families Tax Credit compared with Family Credit (which it replaced). This suggests that poorer children have benefited most from changes in social security policies, although the new tax credits are less concentrated on the poorest children than other types of income-related benefit⁴. This result is confirmed later in this section, using a tax and benefit micro-simulation model.

Table 8: Spending of income-related benefits and tax credits by age-based client group

	1996/97	1999/00	2002/03 (estimates)
<i>As % of total expenditure on benefits and tax credits</i>			
Children	40%	40%	52%
Working age adults	58%	55%	52%
Pensioners	9%	9%	10%

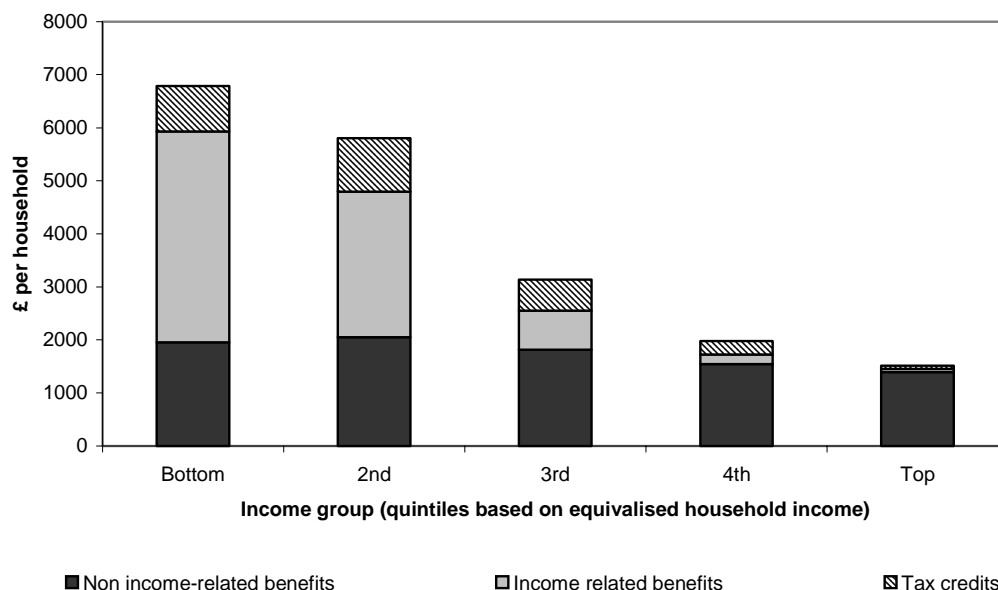
Source: own analysis based on data from Department for Work and Pensions (2002) and Inland Revenue (2003)

An alternative approach is to use data from large-scale household surveys to estimate the amount of benefits and tax credits received by households with children at different points in the income distribution. The analysis presented here is based on the Family Resources Survey, which collects data on a representative sample of over 20,000 households in England.

Figure 10 shows that families in lower income groups receive substantially more benefits and tax credits than better-off households with children (where households are ranked on post-benefit incomes, adjusted for differences in household size). On average, households with children receive around £4,000 per annum in benefits and tax credits. But, poor families – corresponding broadly to the bottom quintile group - receive more than four times as much as families in the top income group - £6,800 as against £1,500 per annum.

⁴ Tax credits only benefit those children with a parent in work and, to reduce the disincentive effects, have a lower taper than Family Credit.

Figure 10: Benefits spending by income group, households with children (2001/02)
(Households ranked according to post-benefit incomes)



Source: own analysis using 2001/02 Family Resources Survey

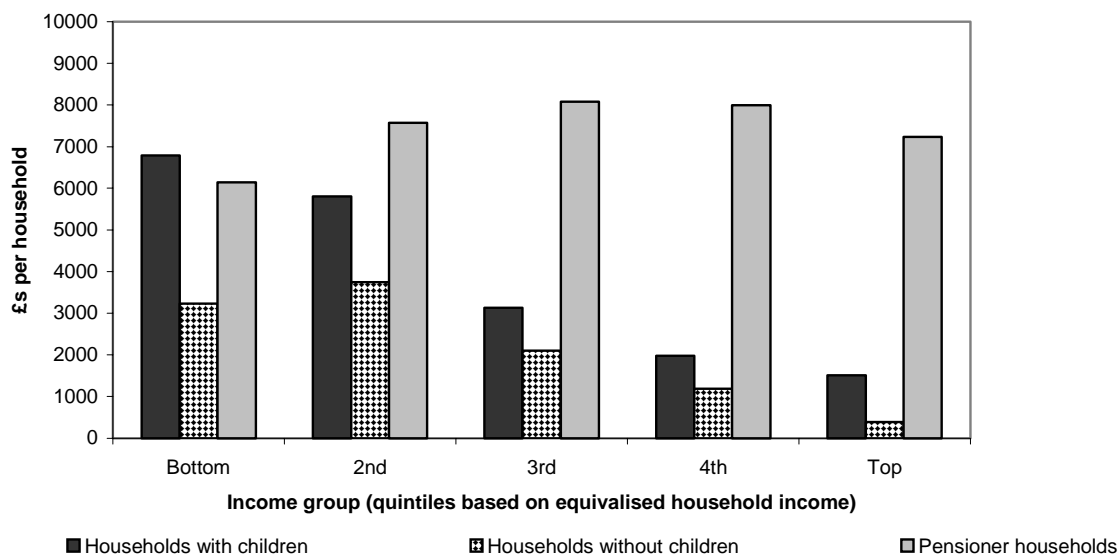
Not surprisingly, most of the benefits received by better-off households are non income-related benefits, such as Child Benefit. Poorer households receive more non-income related benefits, partly because there are more children in these households, but also because they are more likely to be claiming contributory benefits, such as Incapacity Benefit. But, more importantly, they receive far more in income-related benefits, such as Income Support. They also receive more in tax credits than the richest households, though less than families in the second quintile group.

Benefits spending on households with children is more skewed towards the poor than spending on other household types (see Figure 11). Indeed, benefits spending on pensioners marginally favours those in higher income groups. Within the bottom income group, households with children receive more support than other types of household.

However, households with children are also larger than other households, so a given amount of benefits or tax credits will have less impact on their standard of living. If differences in household size are adjusted for⁵, then households with children receive more than non-pensioner households without children, but less than pensioner households. This holds across all income groups (see Figure 12).

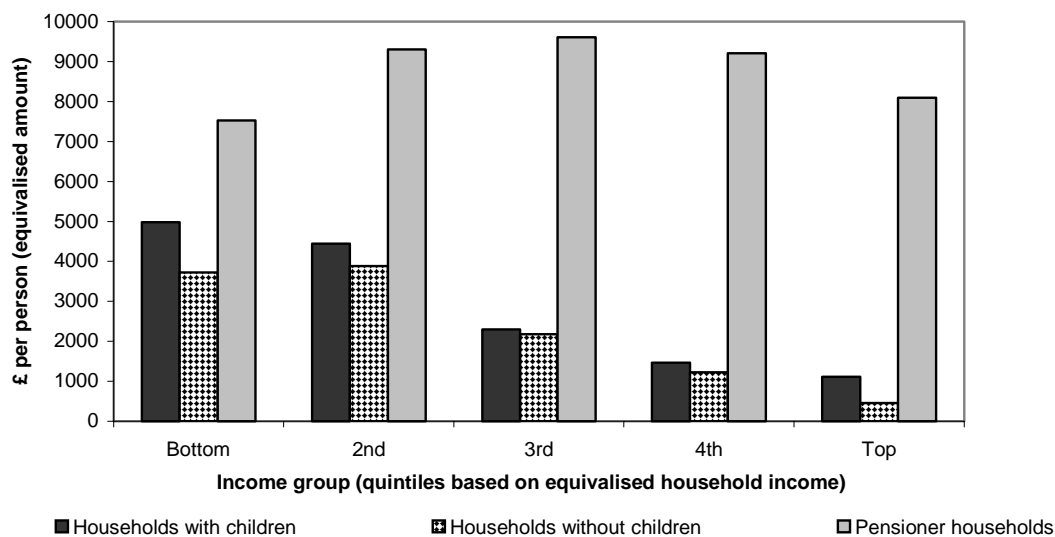
⁵ Using the McClements equivalence scale.

Figure 11: Benefits spending by income group and household type (2001/02)
(£s per household, unequivalised amount)



Source: own analysis using 2001/02 Family Resources Survey

Figure 12: Benefits spending by income group and household type (2001/02)
(£s per person, equivalised amount¹)



Source: own analysis using 2001/02 Family Resources Survey

1. Calculated by dividing the value of benefits and tax credits to each person's household by the (McClements) equivalence scale for that household to allow for the fact that the benefits to larger households are shared between more people (with some economies of scale).

Distributional impact of policy changes since 1997

The impact of changes in the tax and benefit system is best analysed using simulation models that can be used to estimate the effects of policy changes holding other factors, such as household composition and earnings, constant. The results presented here are based on POLIMOD, the tax benefit model developed by the Microsimulation Unit at Cambridge University and were kindly provided by Holly Sutherland. They include the impact of the national minimum wage, as well as changes in direct tax and benefit policies between 1997 and 2003/04 (though not the impact of changes in indirect taxes, such as the increase in tobacco duties).

Households with children and pensioners have gained substantially more, on average, from changes to the benefits and tax system than non-pensioner households without children. Pensioner households have benefited most once differences in household size are taken into account (see Table 9).

Table 9: Average gain by household type, for announced direct tax and benefit measures between 1997 and 2003/04

Household type	Average gain ¹ (£s per year)	
	Unadjusted	Adjusted for household size ²
Households with children:	1240	910
Non-pensioner h/holds without children:	160	150
Pensioner households	1290	1610
All households:	820	820

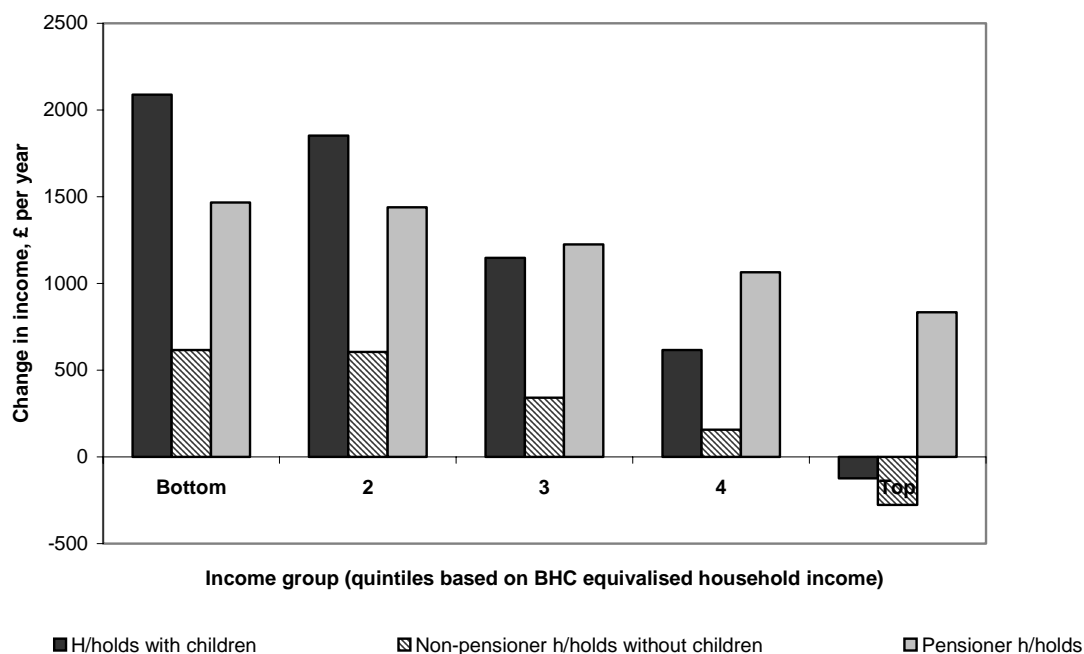
Source: simulation results using POLIMOD, kindly provided by Holly Sutherland at the Microsimulation Unit, Cambridge University.

1. Figures are rounded to nearest £10.
2. Using McClements equivalence scale.

The poorest households gained most from Labour's reforms both in absolute terms and as a proportion of their income. The combined effect of the measures implemented between 1997 and 2003/04 is to raise the incomes of the poorest fifth (or quintile) of households by £1,400 per year, on average - equivalent to an 18 per cent increase in the average income of these households. By contrast, the impact on the richest fifth of households was a small net loss £100 per year, on average - or 0.2 per cent of the average income of these households. Figure 13 shows the net effect of policy changes broken down by income group and household type.

A general increase in benefit rates and/or tax credits would be expected to benefit poorer households most, because a significant proportion of these are income-related. However, even allowing for the pre-existing distribution of benefits, the changes since 1997 have been particularly favourable to low income families with children and pensioners. Richer households and poor households without children or pensioners have benefited much less in proportion to what they would have received in the absence of policy changes.

Figure 12: Net effect of changes in tax and benefit policies between 1997 and 2003/04 by income group



Source: simulation results using POLIMOD, kindly provided by Holly Sutherland at the Microsimulation Unit, Cambridge University.

The substantial gains at the bottom of the income distribution are mainly a result of selective increases in income-related benefits. Workless families with children and pensioners have both experienced sharp increases in entitlement, whilst low-paid workers with children have received extra support through the Working Families Tax Credit (see Table 7). Households with children and pensioners have also benefited from substantial increases in specific non-income related benefits, in particular Child Benefit and the basic state pension.

Nevertheless, some poorer families with children will not have benefited, either because they are not claiming benefits they are entitled to – up to 12 per cent of Income Support and 24 per cent of the Working Families Tax Credit goes unclaimed – or because they will have been adversely affected by specific tax rises – heavy smokers, for example⁶ (Clark, Mcyk, etc, 2001).

More generally, there is a difficult balance to strike between income-related and universal benefits. On the one hand, there are equity reasons for concentrating social security on the poorest families who most need the additional support, especially when there are constraints on overall expenditure. On the other hand, there are valid arguments against targeting public spending too narrowly on the poor – universal benefits have less stigma attached to them and command more widespread public support. They may also be more efficient to administer than means-tested benefits, with lower costs and higher take-up, and are less likely to create disincentives to work. At present, the Chancellor seems to be trying to steer a path somewhere between narrow targeting and universality. In the case of child bonds and the

⁶ The impact of real increases in tobacco duty are not captured in this analysis, which does not cover changes in indirect taxes.

child tax credit - two relatively new policies - all families (or almost all families) receive something, but poor families receive substantially more.

International comparisons

A recent study by Bradshaw et al (2002) provides the most comprehensive assessment of the generosity of the child benefit package in 22 developed countries as at July 2001. These kinds of comparisons are complex, because the value of these benefits varies between and within countries by family size and type, by economic status, by earnings (if in employment), and by whether the comparison is made of the tax and cash benefit system only or after housing and other service costs.

We focus here on the value of cash and tax benefits, because in-kind benefits, such as health, education, and housing are addressed elsewhere in this report. Firstly, we present the results for their 'standard' family – a couple with two children aged 7 and 14 – at different levels of earnings. These show the combined impact of the tax and benefit system in different countries, including the effect of tax allowances and credits and income-related and non-income-related cash benefits, on the grounds that these are all alternative ways of delivering financial help to families. Like the UK, many countries use a mixture of both tax and cash benefits.

In order to assess the tax benefits payable in respect of children, the tax payable by couples without children is deducted from that paid by couples with children; so what is measured is the net effect of having children, compared with not having children. To this is added the value of cash benefits for different types of family in each country. The resulting values are converted into pounds sterling, using purchasing power parities and expressed as an amount per family per month.

The first group – those with one earner on half average male earnings – represent those families in low paid employment. In the UK, a family in this position would be on or around the poverty line. For these families, the UK offers one of the most favourable tax and benefit packages for children, relative to childless households. The UK ranks second only to the US, largely because of the more favourable tax treatment of low income working families, particularly following the introduction of the Working Families Tax Credit in 1999 (see Figure 14).

The other group – those with one earner on average male earnings – represent an 'average' family somewhere around the middle of the income distribution. In the UK, a family in this position would be in the third or fourth quintile group. For the 'average' family, the UK tax and benefits system is less generous relative to other countries, although it still ranks sixth out of the 22 countries (see Figure 14).

Secondly, we present the results for families on social assistance (i.e. those on income support or its equivalent in other countries), which represents the minimum income for different types of family. Though not all poor children live in families that are dependent on social assistance, this comparison provides a good indication of the level of financial support available to the poorest families. The figures are presented after deducting housing costs, because the treatment of housing costs within the social assistance package varies between countries. In some countries there is an element included in the social assistance scales to cover housing costs, whereas in other countries at least part of these costs are paid in addition to social assistance. In the UK, families on social assistance have their rents paid in full via

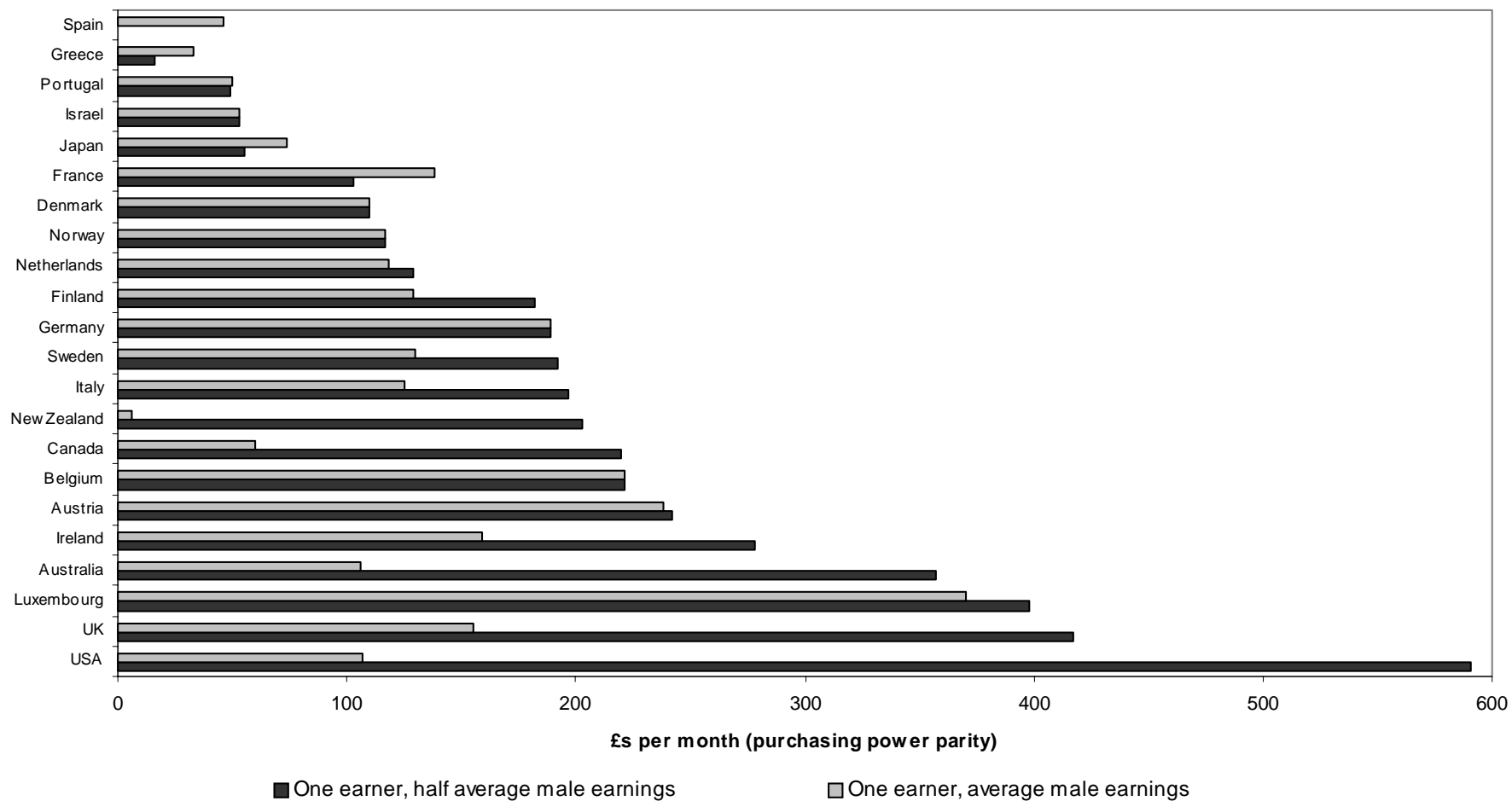
housing benefit, so adjusting for these differences substantially improves the position of the UK relative to other countries where families have to pay all or part of their rent out of their social assistance. Figure 15 shows that once estimates of housing costs are deducted, the UK ranks seventh out of 21 countries (excluding Greece) in terms of the generosity of social assistance available to couples with two children – behind only Austria, Luxembourg, Denmark, Australia, Ireland, and Sweden.

The relative generosity of the system in different countries also varies according to size and type of family. Some countries, like Ireland, have a system that is particularly favourable to lone parents and some countries, like the Netherlands, are relatively generous to families with one child, but relatively less generous to larger families. The UK ranking, however, is about the same for different sizes and types of family.

But, the position of the UK is very sensitive to the treatment of housing costs. The estimates in Figure 14 probably over-compensate for housing costs, because the rents they assume are on the high side for families on social assistance. This may in turn over-state the generosity of the UK tax and benefits system relative to other countries. If housing costs are not deducted, then the UK ranks thirteenth out of the 21 in terms of its treatment of non-working couples with children.

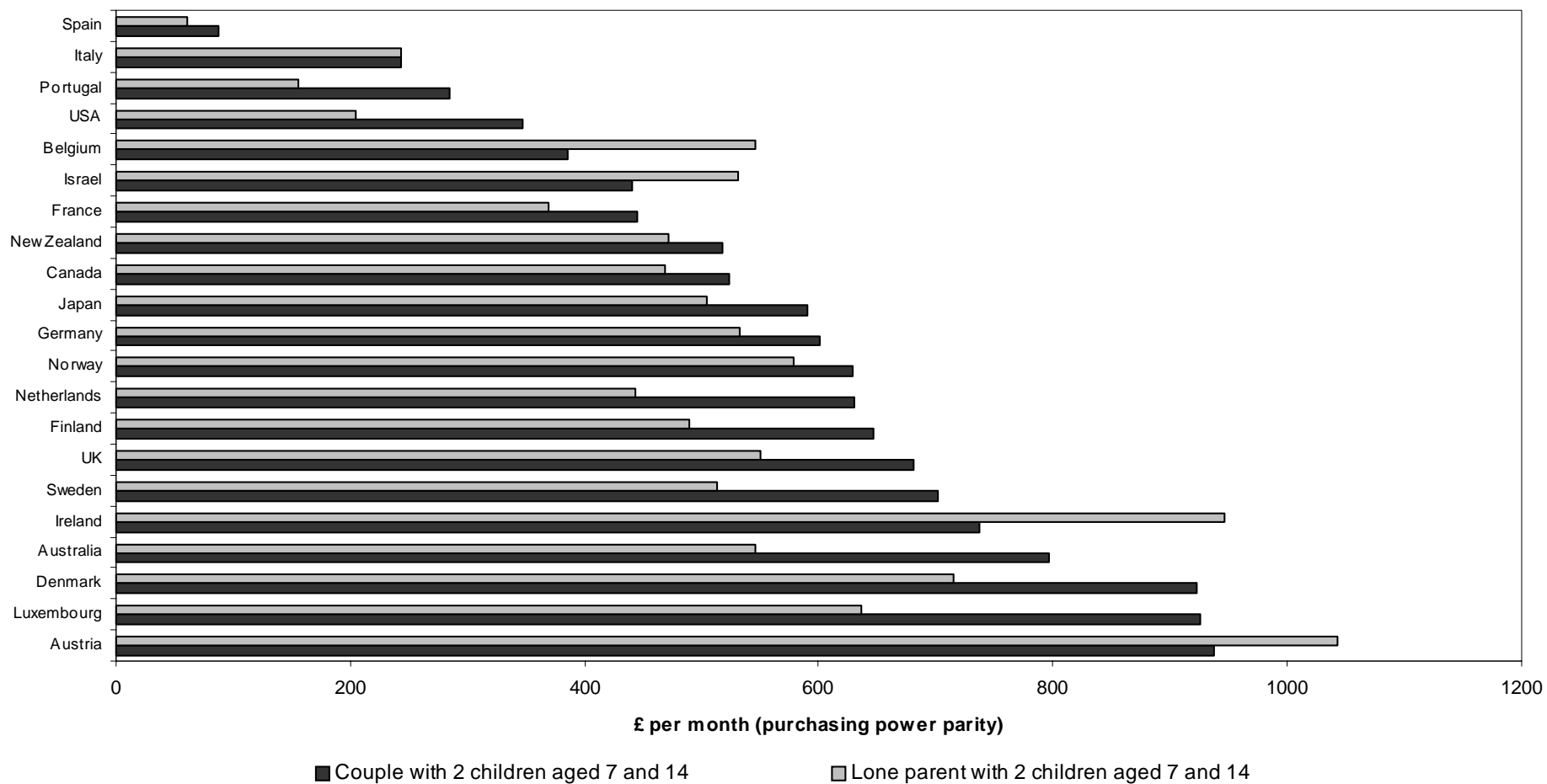
In summary, the UK tax and benefit system is one of the most generous for families on low earnings – second only to the US – and fairly generous to middle income working families and non-working families – sixth and seventh out of the 22 countries in this study, respectively, although the latter ranking is quite sensitive to assumptions about housing costs.

Figure 14: Cash benefits and tax benefits for working families: couple with two children, 2001



Source: Bradshaw and Finch (2002)

Figure 15: Social assistance for non-working families: single parents and couples with children, 2001

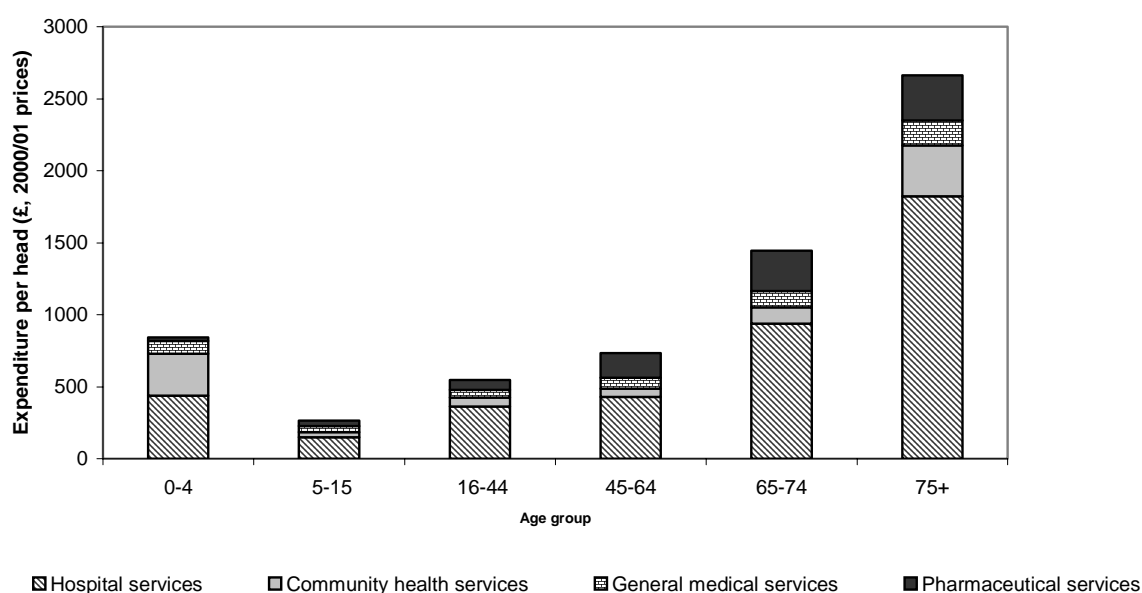


Source: Bradshaw and Finch (2002)

VII. HEALTH

Spending on the National Health Service is apportioned in proportion to people's use of health care services. Fortunately, detailed analyses of the use of health care services by different age groups have been carried out in order to inform the weighted capitation formula that is used to distribute health care funding between areas (Department of Health, 2003a). The demographic composition of the local population is the single most important determinant of variations in the use of health services, so it was necessary to have accurate estimates of the differential use of services by age group in order to ensure that resources are allocated equitably in relation to needs. These analyses are based on administrative records detailing the characteristics of NHS patients and the nature of treatment they have received. So, for example, the age breakdown of the use of general medical services takes into account the number of GP consultations and the length and type of consultations – older people tend to have longer consultations and are more likely to receive home visits (which is more expensive than being seen in the doctor's surgery). Figure 16 combines information on the relative use of different services in order to generate the estimates of average per capita spending by age group. This covers around 90 per cent of gross NHS expenditure, excluding general dental and ophthalmic services⁷.

Figure 16: Health expenditure in England by age group¹, 2000/01



Source: own estimates based on applying age-based relativities in Department of Health (2003a) to gross expenditure totals from Department of Health (2003b).

1. Spending on maternity services is allocated to mothers.

Average spending per person is highest on older people. This is broadly true for all the major health care services, though young children have relatively more spent on community health services (which includes health visitors and immunisation). Average spending on all children (aged 0-15) is around £440 per person, compared to £620 per person on working age adults and £2,020 per person on pensioners.

⁷ The author was unable to find information on the use of dental and ophthalmic services by age group that could be used to apportion spending on these services.

Each year, the Department of Health provides an age breakdown of spending on hospital and community health services for its annual report (see Table 10). Converted to a per capita basis, these suggest that spending on pre-school children rose by 40 per cent in real terms between 1996/97 and 2000/01 – well above the average – whilst spending on school-age children actually fell – by 8 per cent in real terms. If these figures are accurate (and are not, for example, due to changes in the methodology used to apportion spending), then it would appear that older children have not benefited from recent increases in health care spending.

Table 10: Spending per person on hospital and community health services spending by age group in England, 1996/97-2000/01

<i>(£m in real terms, 2001/02 prices)¹</i>	1996/97	2000/01	% change: 1996/97- 2000/01
0-4	530	750	40%
5-15	210	190	-8%
16-44	380	440	16%
45-64	440	500	14%
65-74	920	1080	18%
75+	1900	2230	17%
Total:	530	620	17%

Source: Department of Health (2003b) and previous editions.

1. Rounded to the nearest £10.

One possible explanation, assuming this is a genuine phenomenon, is that the government's priorities since 1997 have led to additional resources being targeted largely at older age groups. The key priorities for the NHS identified in the Department of Health's annual reports are:

- to improve the mental health of the population;
- to reduce the death rate from heart disease;
- to improve cancer services;
- to reduce waiting list ("faster and more convenient access to services");
- to reduce health inequalities;
- to develop primary and community services.

The first three priorities are focused on conditions that mainly affect older age groups. The fourth priority – to reduce waiting lists – has probably received more attention than the rest put together and, at least according to anecdotal evidence, NHS resources have been diverted from other areas to achieve this target. Most of those on the waiting lists are older people waiting for non-emergency operations, such as hip replacements and cataracts. This might explain, at least in part, why recent increases in hospital admissions have been concentrated among older age groups. Between 1996/97 and 2000/01, there was a fall in the number of hospital episodes for very young children and only a small rise for older children, but a 27 per cent rise for those aged 75 or over (see Table 11).

Table 11: Hospital admissions in England by age group, 1996/97-2000/01

	1996/97	1999/00	2000/01	Change: 1996/97- 2000/01
0-4	825,769	697,414	682,137	-17%
5-14	503,555	511,718	508,443	1%
15-44	3,577,794	3,819,959	3,810,039	6%
45-64	2,215,371	2,612,669	2,668,154	20%
65-74	1,499,230	1,717,663	1,752,443	17%
75+	1,918,011	2,304,425	2,427,314	27%
Total	10,539,730	11,663,848	11,848,530	12%

Source: Hospital Episodes Statistics. Age breakdown was kindly provided on request by the Department of Health.

Another, more benign explanation for the fall in spending on children relative to adults is that children's reported self-health status has been improving⁸. Thus, the share of the health care budget spent on children may have fallen, because their need for health care has been falling. On three different indicators of self-reported health, children's health has either improved or stayed the same over this period, whilst adults' health has apparently got worse (see Table 12).

Table 12: Self-reported health status of children and adults, 1995-2001

	% reporting the following:		
	Self-assessed general health is good or very good	At least one longstanding illness	Acute sickness in last 2 weeks
Children¹			
1995	91.1	21.4	14.1
1997	91.2	26.9	14.2
1999	93.5	22.7	9.9
2001	93.0	21.6	10.8
Adults			
1995	76.5	41.5	15.2
1997	74.4	44.0	17.2
1999	74.9	44.0	16.7
2001	74.0	45.7	16.8

Source: Health Survey for England, reported on the Department of Health website:
(<http://www.doh.gov.uk/stats/trends1.htm>)

1. Aged 0-15.

Spending on poor children

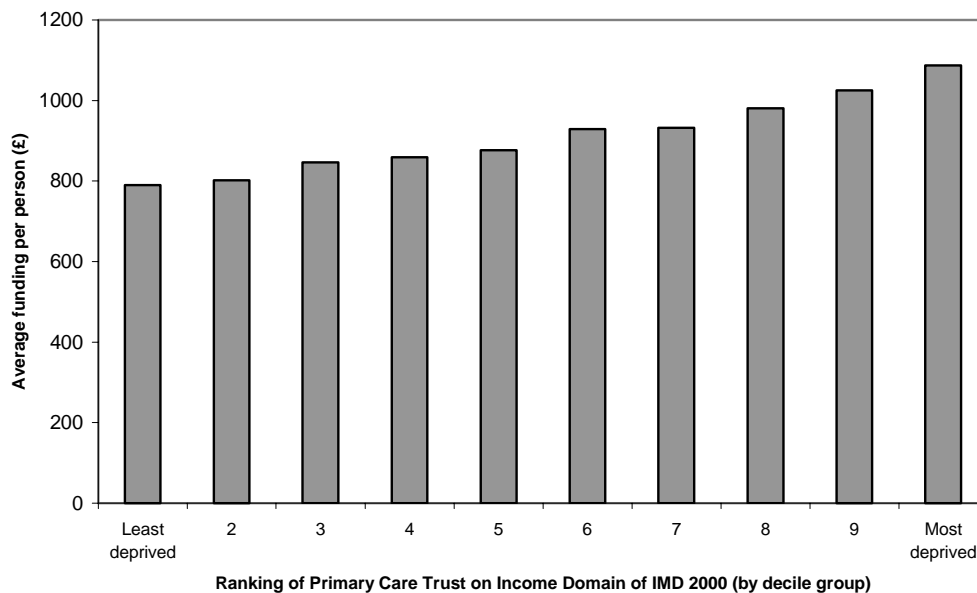
There are two ways of looking at this. The first is to examine the extent to which health care funding is skewed towards more deprived areas. The implicit assumption is that at least part of any additional funding to poor areas will be spent on poor children, though it would be very difficult to verify whether this is the case in practice.

⁸ As reported by a parent or carer.

Like education, health care funding is distributed between areas using a funding formula that seeks to reflect local variations in need⁹. The principle cause of variation in the level of demand for health services is the age structure of the population, as already noted. Thus, more funding is allocated to areas that have a higher proportion of older people. The formula also includes an “additional needs” component to reflect the relative need for healthcare over and above that accounted for by demographic factors. The precise manner in which this is done varies between services, but they are largely based on indicators of deprivation, for example the Jarman index, or indicators that are strongly related to deprivation, for example the proportion of low birthweight babies.

Figure 17 shows that levels of funding are substantially higher for primary care trusts (PCTs) in more deprived areas. In 2003/04, funding per capita in the 10 per cent most deprived PCTs is, on average, 38 per cent higher than in the 10 per cent least deprived PCTs - £1,090 per person, compared to £790 per person. Though the two are not directly comparable, this is greater than the differential in the level of education funding between the least and most deprived areas.

Figure 17: Average funding per person by level of deprivation, 2003-04



Source: own analysis based on PCT allocations for 2003-04.

It was not possible to assess whether, like education, health care spending has become more skewed towards poorer areas than in 1997, because changes in the nature of the funding formula¹⁰ make it difficult to make comparisons with the beginning of this period. But, there are several reasons why this is likely to be the case:

⁹ This formula determines an area’s “target allocation”. The actual amount allocated to that area will lie somewhere between this target allocation and their previous year’s allocation. This ensures that area allocations should over time converge towards their target allocation.

¹⁰ Two changes in particular: firstly, the inclusion of additional services within the weighted capitation formula, and secondly, the transfer of funding from district health authorities to primary care trusts.

- the switch from allocating funding to district health authorities to smaller primary care trusts should ensure that resources are more concentrated on the most deprived areas. Under the previous system, it was up to health authorities to decide how resources were allocated within their boundaries and this was more likely to be influenced by historical precedent, rather than purely by need (Glennerster, Hills, and Travers, 2000);
- the use of more sophisticated and up-to-date indicators of need within the funding formula should ensure that more resources are allocated to those areas in greatest need;
- actual allocations are gradually converging towards target allocations (see footnote 9), which generally favours more deprived areas who were previously receiving less than their needs-based allocation.

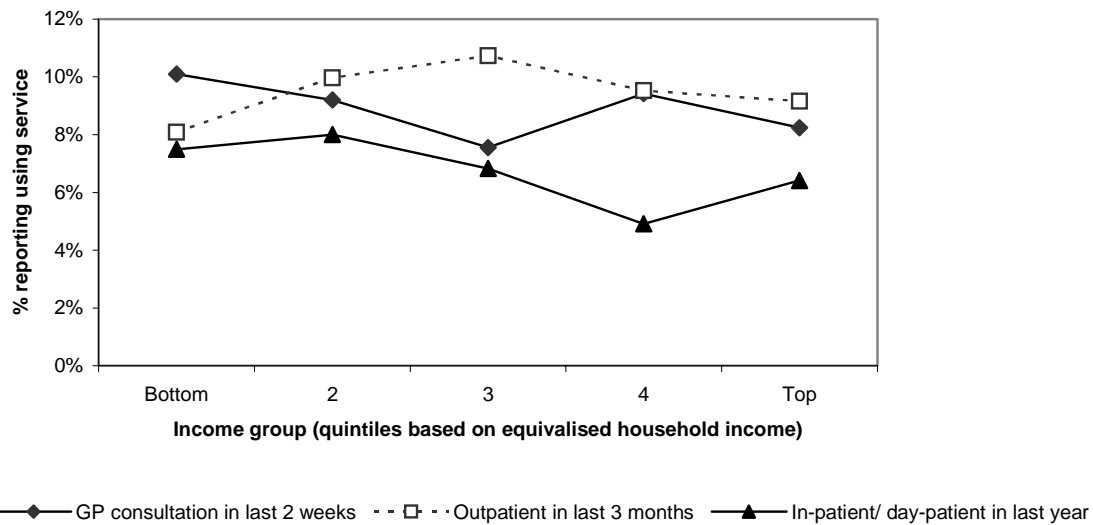
The use of certain child-related indicators in the funding formula, such as the proportion of low birthweight babies, suggests that part of the additional spending is intended for poor children. However, higher levels of funding for poorer areas does not necessarily mean that proportionately more is spent on poor children. This depends on how PCTs choose to spend the resources available to them. It is possible that little of the additional spending goes on children living in those areas – and, indeed, there may be some justification for this. The evidence suggests that differences in the health status of poor and rich children (as reported by their parents) are less marked than differences in the self-reported health of poor and rich adults¹¹.

Another approach is to use data from large scale household surveys to compare the (reported) use of health services by children from low and high income households. How much more frequently, if at all, do children from poor households go to hospital or visit their GP, compared to children from better-off households? This analysis uses pooled data from the 2000/01 and 2001/02 General Household Survey, which includes questions on the use of major health care services, such as inpatient stays and GP consultations. (If additional spending on poor children were directed at other areas of health care, such as public health, this would not be picked up in this analysis.)

Figure 18 shows that children from households in lower income groups are slightly more likely to have used one of these health services (except in the case of outpatient visits), though the differences between the top and bottom quintile groups are relatively small and not statistically significant. This pattern has not changed dramatically since 1995-97, although the gradient has, if anything, become marginally more pro-poor over this period. For example, the percentage who report that their child saw a GP in the last two weeks has fallen most among children from higher income groups (see Figure 19). A separate analysis of children from households who are in receipt of Income Support does show a higher and statistically significant difference in their use of most health care services, compared with other children though again the differences are relatively small (and only just statistically significant at the 5% level).

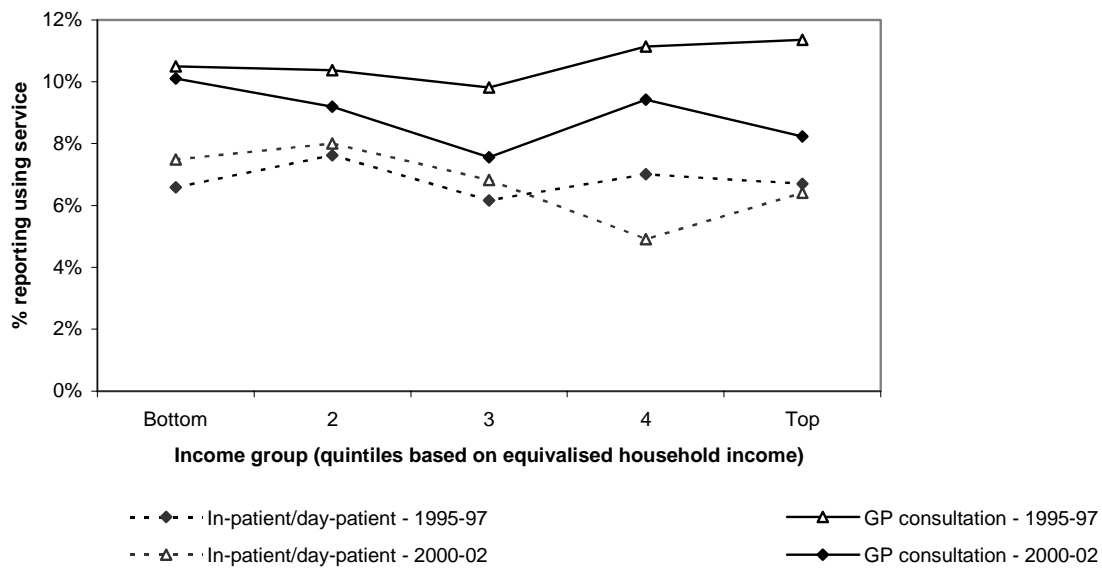
¹¹ For example, in the 2000/01 and 2001/02 General Household Surveys, 78% of the parents of children in the poorest fifth of households said their child's health has on the whole been "good" over the last twelve months, compared to 87% of parents of children in the richest fifth of households – a difference of 9 percentage points. The corresponding figures for poor and rich working age adults were 52% and 75% - a difference of 23 percentage points.

Figure 18: Children's use of health care services by income group, 2000-01/2001-02



Source: own analysis using 2000/01 and 2001/02 General Household Surveys

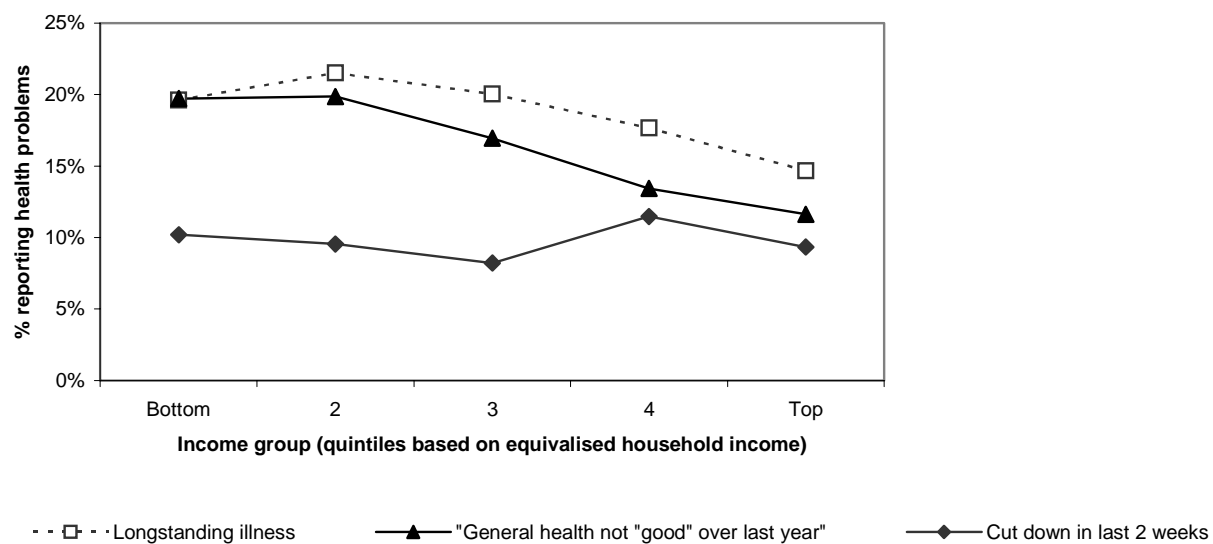
Figure 19: Changes in children's use of health services, 1995/96-2001/02



Source: own analysis using 2000/01 and 2001/02 General Household Surveys

Children from low income households are also more likely to report a long-standing illness or general health problems over the last year than children from high income households. These differences are larger than differences in their respective use of health services and are statistically significant (see Figure 20). So, there is some – albeit fairly weak – evidence that children from low income households may be using fewer health services in relation to needs than other children.

Figure 20: Children's self-reported health by income group, 2000-01/2001-02



Source: own analysis using 2000/01 and 2001/02 General Household Surveys

VIII. SOCIAL SERVICES

Spending on children's social services averaged around £275 per child in 2001/02. This is about half as much as spending on older people, but almost three times higher than spending on adults aged under 65 (see Table 13).

Overall spending on social care increased by 27 per cent in real terms between 1996/97 and 2001/02. Within this total, spending on children's and families services, grew by 30 per cent, about the same as the growth in spending on adults aged under 65, but substantially greater than the growth in spending on older people. Thus, the share of the social services budget spent on children and families has risen slightly – from 26.7 per cent in 1996/97 to 27.2 per cent in 2001/02. This will, if anything, under-estimate the increase in spending on children, because some children's expenditure (e.g. on asylum seekers) was re-allocated to the "other" category during the course of this period. (Changes in budget headings are one reason why spending on "other" services has increased so much over this period.)

Table 13: Expenditure on social services in England by client group, 1996/97-2001/02

	1996/97	1999/00	2001/02	% change: 1997/98- 2001/02
Expenditure (£m, 2001/02 prices¹)				
Children and families	2391	2895	3097	+30%
Adults aged under 65 ²	2323	2786	3054	+31%
Older people	4070	4360	4493	+10%
Other ³	168	428	726	+332%
Total:	8953	10469	11369	+27%
Share of total expenditure (%)				
Children and families	26.7%	27.7%	27.2%	+0.5%
Adults aged under 65	25.9%	26.6%	26.9%	+1.0%
Older people	45.5%	41.6%	39.5%	-6.0%
Other	1.9%	4.1%	6.4%	+4.5%
Expenditure per head⁴ (£s)				
Children and families	212	256	275	+30%
Adults aged under 65	77	91	99	+28%
Older people	525	552	577	+10%
Average:	182	210	228	+25%

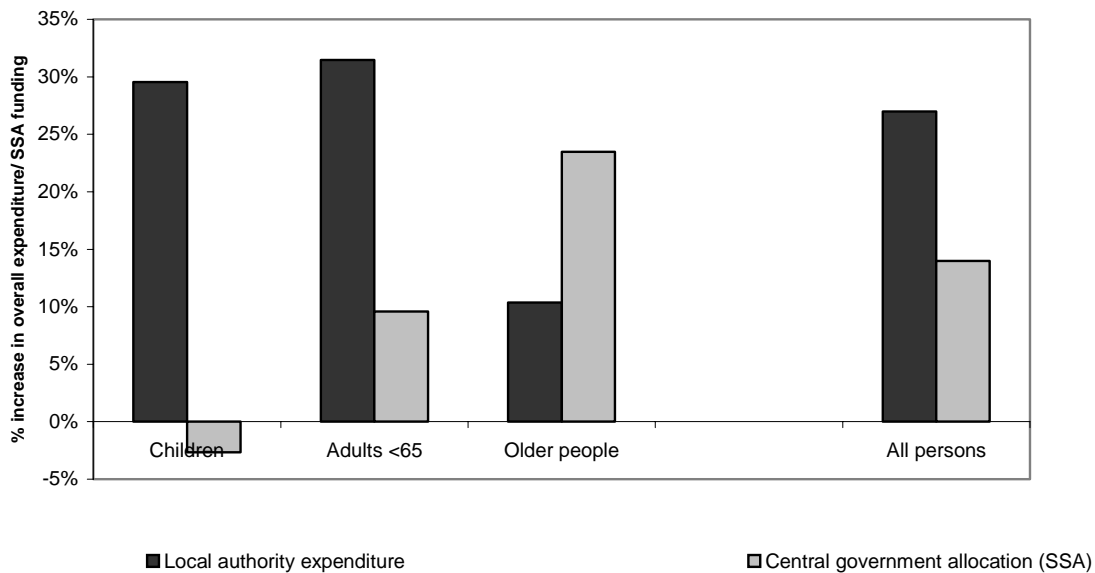
Source: own analysis based on data from Department of Health (2003c)

1. Using GDP deflator from Budget 2003.
2. Adults with physical disability, learning disability, or mental health needs.
3. Covers service strategy, asylum seekers (2001/02 only), other adult services, and other expenditure. For 1996/97 and 1999/00, expenditure on asylum seekers was included in the various client groups and in other expenditure.
4. Calculated by dividing total expenditure by the size of each client group (those aged 0-17, 18-64, and 65 or over, respectively).

The figures in Table 13 show actual levels of expenditure by local authorities in England. This can be compared with the amount of funding allocated to local authorities to spend on social services as part of the local government finance settlement. These Standard Spending Assessment (or SSAs) effectively represent central government's assessment of how much local authorities should be spending on social services, broken down by the main client

groups (or sub-blocks) – children, older people (residential), older people (non-residential), and adults aged under 65 – net of any additional funding provided through special or specific grants to local authorities. Over the period 1996/97-2001/02, the total amount allocated to the children’s sub-block (for social services) fell by 3 per cent in real terms, whilst the total amount allocated to older people rose by over 20 per cent. This makes recent increases in local authority spending on children relative to other client groups that much more surprising, because they appear to have taken place in spite of reductions in central government’s allocation for children’s social services (see Figure 21).

Figure 21: Changes in actual and allocated expenditure on social services by client group, 1996/97-2000/01



Source: own analysis based on Department of Health (2003c) and ODPM (2003b).

Table 14 provides a breakdown of spending on children’s and families services in 2001/02. Just under half of all spending is on looked after children, split fairly evenly between fostering services and children’s homes. Just over a quarter of spending is on commissioning and social work. The remainder is spent on family support services, youth justice, and various other services, including adoption and leaving care services. It is difficult to make comparisons with previous years, because significant changes were made to local authorities’ budget headings in 2000/01. However, there does appear to have been a slight shift in the balance of spending away from residential care (mainly children’s homes) to non-residential care (in particular fostering services).

Table 14: Breakdown of spending on children's and families services, 2001/02

	Total expenditure (£m)	As % of total spending on children's services
Commissioning and social work	812	26.2%
Children looked after:	1422	45.9%
Children's homes	713	23.0%
Secure accommodation (welfare)	17	0.5%
Fostering services	620	20.0%
Other children looked after services	72	2.3%
Family support services:	454	14.7%
Family centres	139	4.5%
Services for under 8s	123	4.0%
Home care	21	0.7%
Equipment and adaptations	7	0.2%
Other family support services	164	5.3%
Youth justice:	117	3.8%
Secure accommodation (justice)	8	0.2%
Youth offender teams	90	2.9%
Other youth justice services	20	0.6%
Other:	291	9.4%
Adoption services	98	3.2%
Leaving care services	94	3.1%
Other other services	98	3.2%
Total:	3097	100.0%

Source: Department of Health (2003c)

Spending on poor children

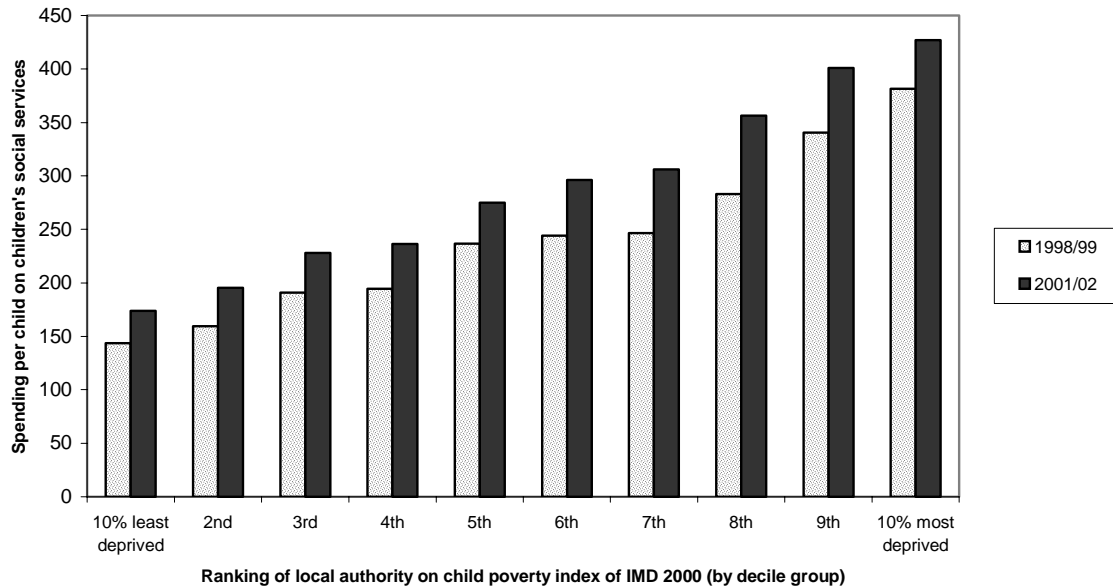
Children's social services are by their very nature targeted at the most vulnerable children, who are concentrated disproportionately in the most deprived areas (see Figure 4). So, like social security, we would expect spending on children's services to be more heavily skewed towards the poorest children than spending on other public services.

The main mechanism for directing social services spending to where it is most needed is the local government finance system, which determines the distribution of funding between local authorities. Centrally-determined funding formulae ensure that more resources are allocated to areas that have more children and older people – the most intensive users of social services – and to more deprived areas, where poverty and other social pressures place additional demands on social services. The formula for children's social services includes various indicators of social needs, including the proportion of children living in one adult households and the proportion of children of income support/ income-based JSA claimants (see Annex B).

On average, spending on children's services in the 10 per cent most deprived authorities was around £430 per child in 2001/02 – around two and a half times as much as in the 10 per cent

least deprived authorities (see Figure 22). Since 1998/99, the earliest year for which direct comparisons are possible, spending per child appears to have risen more slowly in the most deprived areas. As a result, spending on children's services is now marginally less skewed towards the most deprived areas than it was three years earlier.

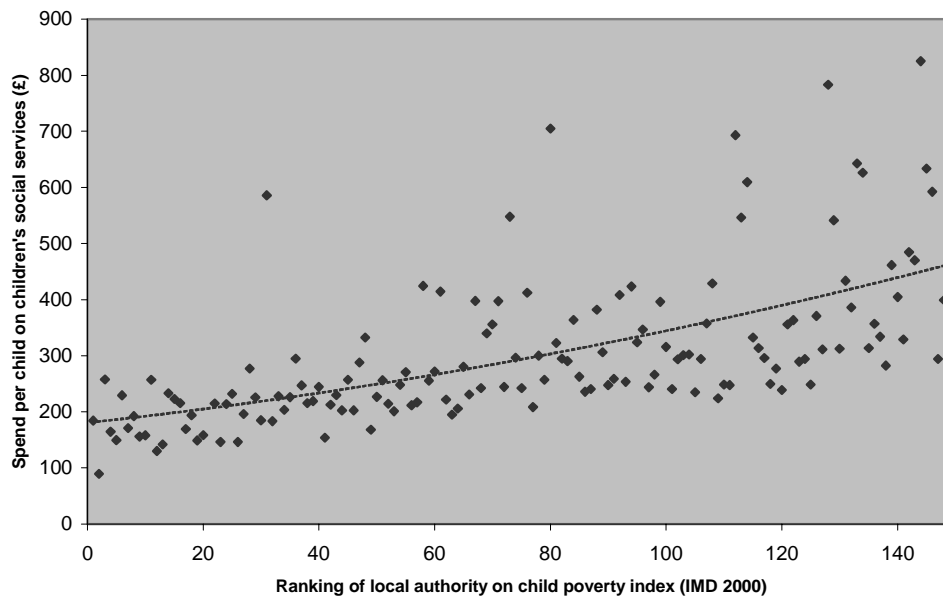
Figure 22: Average spend per child on children's services by level of deprivation, 2001-02



Source: own analysis based on data from Department of Health (2003c)

Although there are separate funding formulae for different services, including children's social services, it is up to local authorities to decide how much they spend on individual services within their overall budget. Some authorities may give more (or less) priority to social services than to education or other local services, and within the social services budget, some authorities may give more (or less) priority to children's services than to other client groups. This would explain the amount of variation in spending per child, even among authorities with a similar level of deprivation (see Figure 23). Part of this variation is also accounted for by the Area Cost Adjustment within the funding formula, which allocates more funding to London, and to a lesser extent the rest of the South East, to allow for the higher cost of providing services in these areas. All of the very high spending authorities are in Inner London.

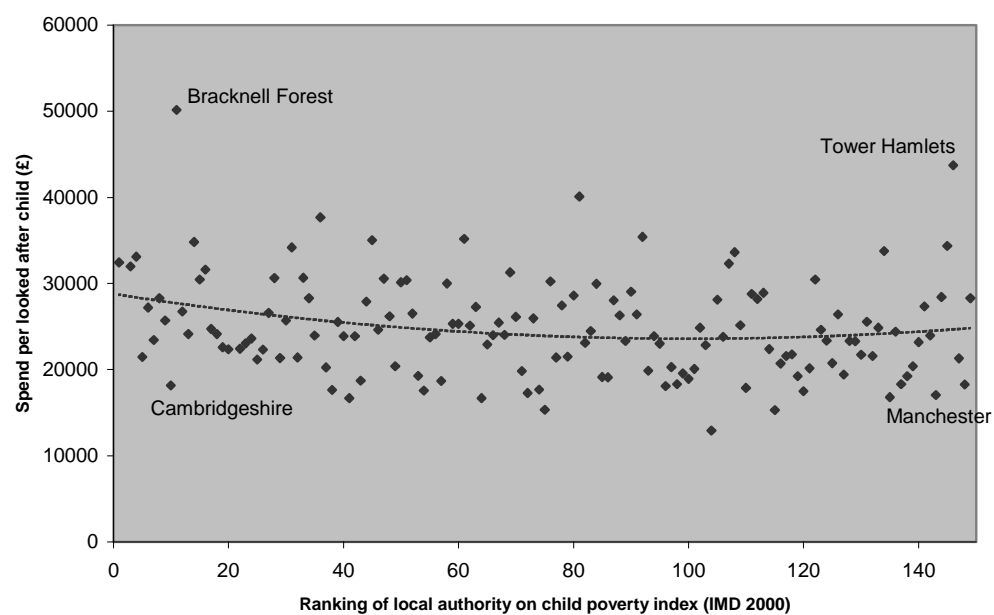
Figure 23: Local variation in spend per child, 2001-02



Source: same as Figure 22.

Just because spending on children's services is generally higher in the poorest areas does not mean that it is sufficient to meet the additional need for services in these areas. One – albeit crude – way of adjusting for differences in need is to compare the average amount spent per looked after child. For this analysis, we only count expenditure on looked after children, which accounts for around half the spending on children's social services (see Table 14 above). The results suggest that, on average, spending per looked after children is, if anything, marginally higher in the least deprived authorities, although the “best fit line” is relatively flat (see Figure 24). More noticeable, however, is the amount of variation around the average among both the least and most deprived authorities. Among the least deprived authorities, for example, Bracknell Forest spends two and a half times more per looked after child than Cambridgeshire, whilst among the most deprived authorities, Tower Hamlets spends more than twice as much per looked after child as Manchester. This may be in part reflect anomalies in the data; for example, the number of looked after children is counted at a particular point in time (1 April 2001), which may not be representative of the numbers of children looked after throughout the financial year. There may also be good reasons for spending more on some children than others – not all looked after children will have the same needs and the costs of providing a given level of service will also vary between areas. Nonetheless, it would seem hard to explain or justify this degree of local variation in spending on looked after children. Thus, in some areas it seems likely that some of our most vulnerable children are not receiving the services they need.

Figure 24: Local variation in spend per looked after child, 2001-02



Source: same as Figure 22.

IX. HOUSING

Introduction

In the case of housing, spending in any given year is not necessarily a good guide to the value of housing subsidies. A substantial proportion of housing expenditure is capital investment. But, what we ideally like to measure is the flow of benefits to households over time. Furthermore, many of the benefits are provided 'in kind'.

The main forms of housing subsidy are:

- direct cash subsidies towards the costs of housing, including Housing Benefit and Income Support for Mortgage Interest (ISMI);
- in kind subsidies to social sector tenants, who are charged sub-market rents (i.e. below what they would have to pay in a 'free market');
- substantial discounts to social sector tenants who purchase their home under the Right To Buy scheme;
- tax relief to owner-occupiers, including MIRAS (which was abolished in April 2000).

These different forms of housing subsidy are discussed in more detail below and an attempt is made to value them, using survey data on a representative sample of households in England. The results are broken down by household type and by income group.

Housing Benefit is by far the most important cash subsidy towards the housing costs of low income households – total expenditure of around £12bn in 2001/02 (GB). This is payable on a sliding scale to households in the social and private rented sectors with incomes below a certain threshold, subject to certain restrictions (e.g. there are upper limits on the amount of housing benefit, which vary by area and by household type). The income threshold is higher for families with children to allow for the additional non-housing costs of supporting dependent children. The maximum rent on which housing benefit will be paid is also more generous for larger households, as local reference rents are based on what landlords might reasonably charge for a tenancy of an appropriate size, taking into account the number and ages of children in the household. Additional restrictions, such as the 'single room rent' limit for young people under the age of 25, do not apply to households with children. The amount of Housing Benefit received by different types of household is relatively easy to measure, using data from large scale household surveys. The estimates in this section are based on the 2000/01 Family Resources Survey.

The other, much smaller, cash subsidy is income support for mortgage interest (ISMI), which is paid to owner-occupiers who have a mortgage and are in receipt of Income Support. However, successive governments have imposed tighter restrictions on the receipt of ISMI, which have progressively reduced the number of claimants and the average size of claims (mostly prior to 1997). ISMI cannot be claimed for the first nine months, as mortgagors are now expected to take out private mortgage insurance to cover this initial period. There are also limits on the size of mortgage (up to £100,000) and interest rate (which may be lower than the actual rate paid by the claimant). In 2001, there were an estimated 260,000 claimants (in the UK) at an estimated annual cost of £484m (Table 107 in Wilcox, 2002). ISMI is not included in our estimates of housing subsidies.

The most important *in-kind* benefit is the sub-market rents charged to local authority tenants, which are well below what would be charged in the private rented sector. For example, the

average local authority rent in 2001 was £48 per week, compared to £107 per week in the private rented sector (though the two are not directly comparable, because of differences in the quality and location of accommodation across tenures). The difference between the rents charged by local authorities and market rents is effectively covered by central government subsidies to local authorities' Housing Revenue Account (HRA), although the value of HRA subsidies is a poor measure of the value of in kind subsidies (see Sefton (2002) for a fuller explanation). A more appropriate way of valuing this subsidy is to compare the actual rent charged by local authorities with an estimate of the rent that would be charged for a similar dwelling in the (deregulated) private rented sector (i.e. how much more a social sector tenant would be expected to pay if they were renting their home privately). The estimates of in kind housing subsidies presented in this report are based on previous research by the author of this report, using data from the 2000/01 Family Resources Survey. The methodology is described in more detail in Sefton (2002).

Housing association rents are also subsidised by grants from central government (via the Housing Corporation) towards the cost of providing new social sector tenancies, which enable housing associations to charge a lower rent than would be necessary to cover their costs in full. Typically, housing association rents are higher than local authority rents for equivalent dwellings, though still substantially lower than private sector rents. The in kind subsidy to housing association tenants is valued in the same way as for local authority tenants (see above).

Another in-kind benefit is the discount offered to social sector tenants who have purchased their home under the Right To Buy scheme. Since 1997/98, around 240,000 homes have been sold under the RTB scheme. In 2001/02, the average discount was worth around £23,000 per dwelling - equivalent to 43 per cent of the average purchase value. Rather than treating the discount as a once-off lump-sum benefit to the purchaser, the benefits (in terms of reduced mortgage payments) are spread over time. Using data from the Family Resources Survey, households who originally purchased their home under this scheme are allocated a housing subsidy equal to the estimated value of the RTB discount multiplied by the average mortgage rate.

Lastly, we also estimate the value of tax relief on mortgage payments (MIRAS). This was abolished in 2000 and is, therefore, worth nothing at the end of the period. However, it is important to include it in our estimates for 1996/97 in order to provide an accurate picture of how the overall value of housing subsidies has *changed* over this period. The value of MIRAS was equal to 15 per cent of the interest paid on mortgage loans up to a value of £30,000; so, for households with a mortgage of £30,000 or more, it was worth just over £300 per annum.

Results

Table 15 shows the average value of housing subsidies for different household types. Just over a third of households with children are either social sector tenants, or in receipt of Housing Benefit, or have purchased their home under the Right To Buy scheme. The average subsidy is around £4,000 per annum for each *recipient* household with children and around £1,300 per annum, on average, across all households with children. This is greater than the average value of housing subsidies received by other types of household. Compared with non-pensioner households without children, households with children are more likely to be social sector tenants and more likely to be in receipt of Housing Benefit. Among recipients, households with children also receive a higher subsidy, on average, than other types of

household, because they generally live in larger dwellings, which are worth more and attract more Housing Benefit.

Table 15: Average annual value of housing subsidies by household type, 2000/01

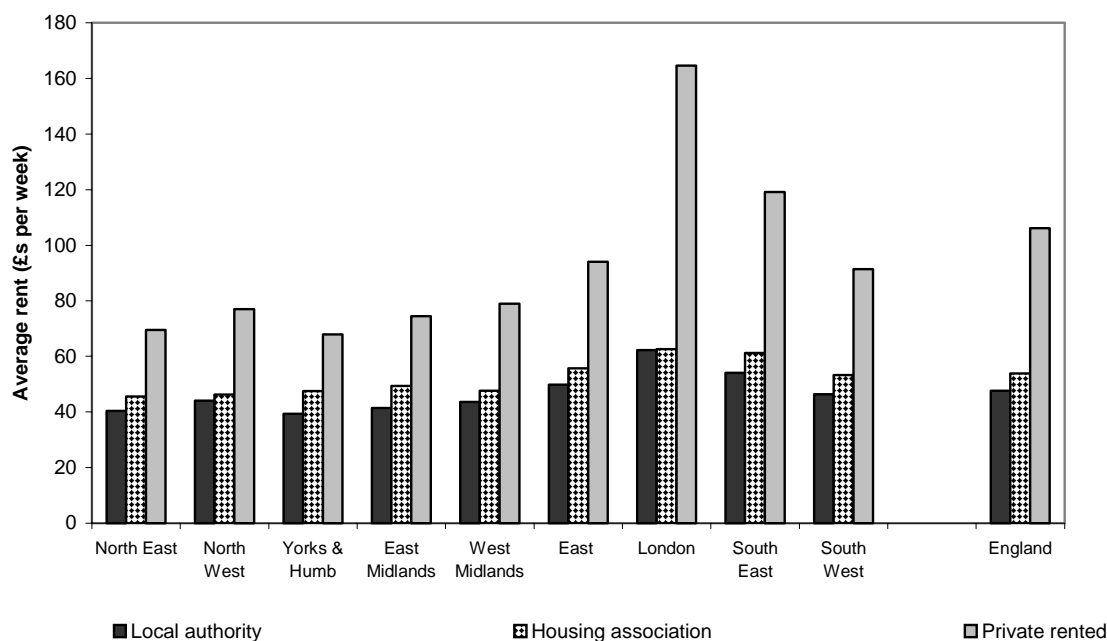
	Households with children	Non-pensioner households without children	Pensioner households	All households
<i>Proportion of h/holds in receipt of housing subsidies</i>				
- social rented tenants	24%	16%	30%	22%
- housing benefit recipients	19%	12%	23%	17%
- former Right To Buy purchasers	8%	8%	4%	7%
- one or more of the above	35%	25%	34%	31%
<i>Average value of subsidy per recipient h/hold</i>				
- in kind subsidy ²	2450	2260	2140	2270
- housing benefit	2870	2490	2090	2460
- RTB discount ³	1950	1540	1310	1640
- all housing subsidies	3880	3270	3400	3510
<i>Average value of subsidy per h/hold (all households)</i>				
- in kind subsidy	560	340	590	470
- housing benefit	520	270	470	400
- RTB discount	180	130	50	120
- all housing subsidies	1270	730	1130	990

Source: own analysis using 2000/01 Family Resources Survey.

1. Rounded to nearest £10.
2. Difference between the 'market' rent of an equivalent property in the private rented sector and the actual (sub-market) rent charged in the social rented sector.
3. Estimated reduction in mortgage interest payments due to the Right To Buy discount (which is around 50% of the original purchase price).

The averages presented in Table 15 hide substantial variations between households living in different parts of England. Rents are higher in London and the rest of the South East, so Housing Benefit payments are, on average, greater. The differential between social and private sector rents is also substantially greater in London and the rest of the South East than in other regions – social sector rents are only slightly higher in the South East, whilst private sector rents are much higher (see Figure 25). The value of the in kind subsidy to each social sector household is, therefore, substantially greater – around 2-3 times as high - in London and the rest of the South East than in other parts of England. The value of housing subsidies also varies substantially between income groups. This is discussed in the next section.

Figure 25: Regional differences in social and private sector rents, 2001



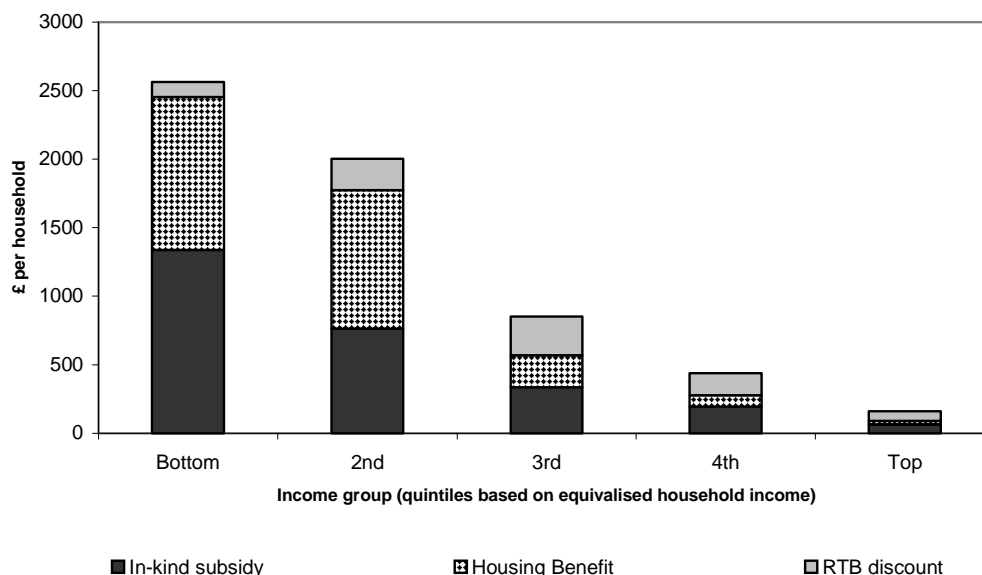
Source: ODPM (2003c)

Spending on poor children

Housing is the most pro-poor of all the major services, reflecting the concentration of social sector tenants at the bottom of the income distribution – over 40 per cent of people in the bottom fifth of the income distribution are social sector tenants, compared to less than 3 per cent of those in the top fifth. As incomes have risen over the last two decades, owner-occupation has become the preferred option for the majority of households and social housing has become increasingly confined to those who cannot afford to purchase their own home. Lack of investment in social housing – a relatively low (and falling) spending priority for government spending – has contributed to the ‘residualisation’ of social housing. Housing benefit, the other main form of housing subsidy, is subject to a means-test, so it, too, is targeted at the poorest households. MIRAS, which was the main housing subsidy to better-off households, has been abolished.

Figure 26 shows the distribution of housing subsidies – both in-kind and cash benefits – broken down by income group. Nearly two thirds of poor households with children receive a housing subsidy in some form. In 2000/01, the average value of housing subsidies for households with children ranges from around £2,600 per year for those in the bottom quintile to less than £200 per household for those in the top quintile. For the poorest households, the in-kind subsidy on social housing is as important as Housing Benefit. For those in the middle of the income distribution, the Right To Buy subsidy is relatively more important.

Figure 26: Value of housing subsidies by income group in 2000/01, households with children



Source: own analysis using 2000/01 Family Resources Survey

Changes since 1997

There was been a significant fall in the real value of housing subsidies between 1996/97 and 2000/01. For households with children, the average value of housing subsidies fell by 17 per cent from just over £1,500 to just under £1,300 per household (in 2000/01 prices), though the poorest households were receiving only marginally less, on average, than before (see Figure 26).

The value of the in-kind subsidies has remained roughly constant, as both social and private sector rents have been relatively flat in real terms over the period covered by our analysis. Although there has been a slight fall in the proportion of households living in social rented accommodation - from around 25 per cent of households with children in 1996/97 to around 23 per cent in 2000/01 - this is offset by the increase in the pool of Right To Buy participants over the same period.

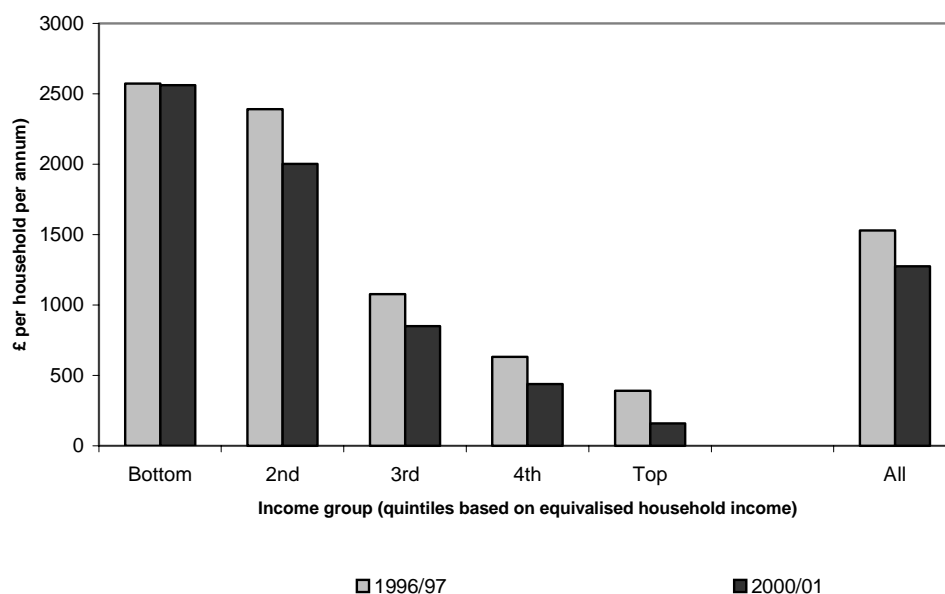
Expenditure on Housing Benefit fell over this period - by around 10 per cent in real terms, from £13.7bn in 1996/97 to £12.3bn in 2001/02 (both measured in 2003/04 prices). This is partly a cyclical phenomenon – rising employment has reduced the number of claimants among those of working age. Policy changes have also sought to reduce spending on Housing Benefit compared to what it would otherwise have been, both by excluding certain groups (e.g. full-time students over the age of 18) and by imposing tighter restrictions on the amount of rent that can be claimed for (e.g. the introduction of the single room rent). But, these policy changes mostly affected young, single person claimants, rather than households with children.

Increases in the value of other benefits and tax credits have also lifted some people off Housing Benefit. Housing Benefit is at the ‘end of the line’ when it comes to means-tested benefits, so that an increase in other means-tested benefits may reduce the amount of Housing Benefit claimant households are eligible for. This will appear as a reduction in housing subsidies, even though other benefits or tax credits may be used to cover housing costs.

Indeed, policy-makers may see the reduction in Housing Benefit claimants as a positive thing, given the problems in administering this particular benefit.

Households with children have been most adversely affected by the abolition of tax relief on mortgage interest payments (MIRAS) in April 2000, because they are more likely to have a mortgage than other types of households, especially pensioners. This was worth up to £320 per annum for tax-payers with an outstanding mortgage of £30,000 or more. This mostly affected better off households with children, which explains the much larger proportionate fall in housing subsidies among those in higher income groups (see Figure 27). This also explains why pensioners have not experienced a significant fall in the value of their housing subsidy, because most elderly home-owners have already paid off their mortgage and would not, therefore, have been affected by the removal of MIRAS.

Figure 27: Changes in the value of housing subsidies by income group between 1996/7-2000/01, households with children



Source: own analysis using 2000/01 Family Resources Survey.

X. SPECIAL OR TARGETED INITIATIVES FOR POOR CHILDREN

One of the features of this Government is the proliferation of special initiatives, which are administered by central government, rather than by local authorities or other local agencies. The use of targeted support is not new; what is new is that the Labour Government is spending more on its own initiatives than previous administrations.

In some cases, special pots of money are set aside to achieve specific Ministerial objectives or PSA targets – for example, those set out in the NHS Plan – to which the Government is strongly committed. In other cases, the initiatives are used to stimulate or test out new approaches to service delivery. These initiatives are often designed to cut across traditional boundaries between services, by establishing a separate budget independent of individual Government Departments and by requiring cooperation between different local agencies in the delivery of the programme. A competitive bidding process is sometimes used to promote innovation. Other initiatives, such as the Welfare Foods Scheme, are long-standing programmes that lie outside the usual boundaries of service provision.

Many of these initiatives, such as Sure Start, Excellence in Cities, and the Teenage Pregnancy Strategy are aimed at improving the outcomes of the poorest children living in the most deprived neighbourhoods. A brief description of the main initiatives targeted at poor children is provided in Table 16, although this is not intended to be an exhaustive list. The distinction between mainstream funding and special initiatives is, in any case, a rather blurred one. Some of these programmes are funded in part out of mainstream budgets and other programmes, such as Connexions, have taken over and built on pre-existing initiatives. Successful initiatives are in turn ‘mainstreamed’ after a period of time in order to spread the benefits more widely.

Although the profile of some of these initiatives is out of proportion to the amount of funding they receive, an increasing share of each budget has been set aside for these kinds of initiatives. Table 16 presents the most readily available information on the budget for each initiative. In aggregate, the amounts of funding are relatively small compared to mainstream funding. Together, the initiatives listed in the Table add up to an annual equivalent expenditure of up to £2.5bn – or around 5% of total public expenditure on children.

This figure under-estimates their importance to certain groups of children. For children living in the most deprived areas, who are the target group for most of these initiatives - many are either means-tested or targeted at the most deprived wards – these special initiatives will represent a much more significant share of total public expenditure. Also, a disproportionate share of this spending has been on pre-school children, as Government has responded to research that has highlighted the importance of children’s early years experience for subsequent child development.

Furthermore, the importance of these initiatives should not only be judged by the size of their budget. Some of these initiatives seek to promote new or improved forms of service delivery that, if successful, can be disseminated more widely, thereby increasing the efficiency of mainstream services, particularly in areas or institutions that are under-performing. On the other hand, the increase in central initiatives has potential drawbacks; many of these require ‘matched’ funding from local authorities, which takes money away from mainstream budgets and reduces the flexibility of local service providers, because the additional funds are earmarked to be spent in specific ways (West, Pennell, and West, 2000).

Table 16: Special initiatives with a focus on poor children or children in poor areas.

<i>Name of initiative</i>	<i>Brief description</i>	<i>Annual budget</i>	<i>Number of potential beneficiaries</i>
EARLY YEARS			
Sure Start local programme	To improve the health, well-being, and education of the most deprived pre-school children, by providing a range of family and health services in disadvantaged areas.	£211m in 2002/03.	300,000 children under four and their parents (rising to 400,000 by 2005/06).
Neighbourhood Nurseries Initiative	Provides revenue and capital grants to expand nursery provision in the 20% most deprived wards. Neighbourhood Nurseries provide both childcare and basic skills training to help mothers re-enter the workplace and help their child with learning.	£101m per annum (or £303m over 3 years), funded jointly by the DfES and NOF.	Up to 45,000 new childcare places.
NOF's Out of School Programme/ Neighbourhood Childcare Initiative	Provides grants to increase the amount of readily available out of school childcare provision, especially in the most disadvantaged areas. Priority is given to applicants from disadvantaged areas, which are also eligible for longer-term funding (up to 3 years).	£57m per annum (or £226m over 4 years), funded by NOF.	247,000 new out of school places, plus an extra 50,000 extra out of school childcare places.
Early Excellence Centres	One-stop shops where families and children can access integrated care and education services. Set up in 1997 to develop models of good practice. There are currently 107 designated centres across England.	£10m allocated in 2003/04 to cover recurrent costs of EECs.	Education and care for 10,000 children and family support for 30,000 families, based on 100 EECs (by 2004) and the average operational profile of existing EECs.
Child Trust Fund	To be available from April 2005 for children born before September 1 2002. Initial endowment of £500 for children in families receiving the top rate of Child Tax Credit and £250 per child for other children. 'Top up payment' will be made when child reaches 7. Fund will remain locked until child reaches 18, by which time the asset could be worth between £3,000-4,000.	About £250m in its first year, rising to £375m over time (IPPR estimates). Approximately half of this may go to the poorest third of families.	Around 650,000 (of which 200,000-250,000 poor children may receive the higher amount.
Sure Start Maternity Grant	Additional financial help for low income families to cover the costs associated with having a new baby - currently £500.	Up to £125m per annum (own estimate based on 250,000 potential recipients).	250,000.

EDUCATION			
Excellence in Cities	Provides additional funding and support for schools in deprived inner city areas. Has seven main policy strands, including Learning Mentors, Learning Support Units, Specialist Schools, EiC Action Zones, Excellence Clusters, and Excellence Challenge (which aims to increase the numbers of young people from disadvantaged backgrounds who apply for and enter higher education).	£255m allocated in 2003-04 via the Standards Fund (excluding BIP – see below).	995 secondary and 1,346 primary schools, comprising around 1.4m pupils.
Behaviour Improvement Project (BIP)	To improve behaviour of most challenging pupils, and reduce truancy and exclusions in areas with the highest crime rates and levels of truancy. Under the Excellence in Cities banner.	£64m allocated in 2003/04 via the Standards Fund.	Over 300,000 pupils from 555 primary schools and 130 secondary schools in 34 local authorities.
Education Action Zones	Provides extra funding and additional powers to local ‘clusters’ of schools (usually 2-3 secondary schools in each zone, plus associated primary schools) to promote new partnerships and encourage new ideas.	£61m in 2002/03 (planned).	2,198 schools involved.
Pupil Learning Credits	Pilot project, providing extra funding to participating secondary schools to enable them to provide additional learning opportunities to pupils whose social circumstances are exceptionally challenging.	£35m (between September 2001 and March 2003)	
Vulnerable Children’s Grant	Part of the DFES Standards Fund. Supports local authority initiatives to raise the educational achievement of children in care and other groups of vulnerable children.	£42m allocated in 2003/04.	
Educational Maintenance Allowance (EMA)	To encourage 16-19 year olds from low income backgrounds to stay on in full-time education with up to £30 per week.	£127m in 2002/03 (rising to £221m in 2003/04).	More than 120,000 (DFES annual report).
HEALTH			
Welfare Food Scheme	7 pints of free milk per week, formula milk, and vitamins to low income families on income support or income-based JSA (expectant mothers, babies, and children under 5) and a glass of milk to all children in nursery or day care. To be re-launched in 2004 as Healthy Start, which will offer vouchers that can be used to purchase ‘healthy’ foods, as well as milk.	£142m in 2001/02 (GB).	55,000 pregnant women and 808,000 mothers and young children.

National School Fruit Scheme	To provide free fruit to schools. Initially, priority is being given to more deprived areas. By 2004, the aim is to provide all children aged 4-6 in England with a free piece of fruit every school day.	£21m per annum (£42m over 2 years funded by NOF).	250,000 (rising to 600,000 in 2004)
Five-a-day local communities initiatives	To support community-based initiatives to promote the consumption of fruit and vegetables in the most deprived communities.	£10m over 2 years funded by NOF	20 per cent most deprived Primary Care Trusts.
Teenage Pregnancy Strategy	To reduce teenage conceptions and increase teenage mothers' participation in education, training, and employment.	£20m per annum (or £60m over first 3 years) from existing departmental programmes.	-
Brushing for Life	Scheme launched in 2001 to reduce inequalities in the dental health of young children aged under 5 in the worst affected areas, by providing free packs with toothpaste, toothbrushes, and information leaflet.	£1m over 3 years.	350,000 children per year.
OTHER			
Children's Fund	Supports local preventative services over and above those provided by statutory services. Aimed at children aged 5-13 who are most at risk of social exclusion, including travellers, asylum seekers, and homeless children. Delivered by CYPU.	£129m in 2002/03 (rising to £200m from 2003/04). From DFES annual report.	
Local Network Fund	Small grants programme (average of £5,000) for small local voluntary groups working with children and young people aged 0-19. Delivered by CYPU.	£20m in 2002/03.	4,000 groups funded to date.
Parenting Fund	To build better support for parents and families through the voluntary and community sector.	£8m per annum (or £25m over 3 years from 2003/04.	-
Family Support Grant	Small grant programme started in 1999 to fund innovative projects run by voluntary organisations to enhance parenting skills and try out new ways of targeting socially excluded mothers. Also provides core-funding for national organisations, such as Parentline Plus.	Around £6m per annum.	-

Connexions Service	Government's support service for all young people aged 13 to 19 in England, but focused on those most in need. Aims to provide integrated advice, guidance and access to personal development opportunities to help them make a smooth transition to adulthood and working life.	£441m in 2002/03 (rising to £458m in 2003/04).	450,000 interviews between April 2001 and January 2002.
Positive Activities	New programme providing a range of school holiday time activities aimed at young people most at risk of anti-social behaviour, offending, or truanting.	£25m in first year, jointly funded by Government and NOF.	
Youth Inclusion Programme	Aims to prevent young people from re-offending, by targeting and working intensively with the most prolific young offenders in 70 of the most deprived/ high crime estates in England and Wales.	Around £6m per annum over 3 years.	3,500.
Warm Front	Provides grants to improve the energy efficiency of owner-occupied and private rented sector homes – and is the main instrument for achieving the Government's Decent Homes target within the private housing sector. The three target groups are low-income pensioners, low income families, and disabled persons.	£150m per annum.	300,000 grants awarded in 2001/02 (though some are for very small amounts). Around a third of grant recipients are low income families.

Source: see below

Further details on each of these initiatives can be obtained from:

Overview of education-related programmes: <http://www.neighbourhood.gov.uk/formatteddoc.asp?id=426>

Sure Start local programme: <http://www.surestart.gov.uk/surestartservices/surestartlocalprogrammes/>

Neighbourhood Nurseries Initiative: <http://www.surestart.gov.uk/doc/0-5CD404.doc>

Early Excellence Centres: <http://www.dfes.gov.uk/research/data/uploadfiles/RB258.doc>

Excellence in Cities: <http://www.standards.dfes.gov.uk/midbins/eic/EiC-AnnualReport.PDF>

Education Action Zones: http://www.standards.dfes.gov.uk/eaz/guidance/members_guide_forum/page/

Behaviour Improvement Programme: <http://www.dfes.gov.uk/behaviourimprovement/faq/index.cfm#faq17>

Education Maintenance Allowance: <http://www.dfes.gov.uk/ema/>

Out of School Childcare Programme: http://www.nof.org.uk/documents/live/5613p_eng_guide.pdf

Child Trust Fund: <http://www.ippr.org.uk/articles/index.php?article=35>

Sure Start Maternity Grant: <http://www.dwp.gov.uk/publications/dwp/2002/maternity/index.asp>

Health Action Zones: <http://www.haznet.org.uk/>

Healthy Living Centres: <http://www.doh.gov.uk/hlc/index.htm>

Welfare Food Scheme: <http://www.doh.gov.uk/welfarefoods/index.htm>

Positive Activities for Young People: <http://www.nof.org.uk/default.aspx?tc=260&tct=3&fc=9&fct=18>

Five-a-day local community initiatives: <http://www.nof.org.uk/default.aspx?tc=0&tct=6&fc=45&fct=2#6>

National School Fruit Scheme: <http://www.nof.org.uk/default.aspx?tc=50&tct=2&fc=8&fct=18>

Teenage Pregnancy Strategy: <http://www.doh.gov.uk/teenagepregnancy/index.htm>

Brushing for Life: <http://www.info.doh.gov.uk/doh/intpress.nsf/page/2001-0394?OpenDocument>

Children's Fund: <http://www.cypu.gov.uk/corporate/childrensfund/index.cfm>

Local Network Fund: <http://www.cypu.gov.uk/corporate/lnf/index.cfm>

Parenting Fund: http://www.hm-treasury.gov.uk/media/45755/parenting_fund_202.pdf

Family Support Grant: <http://www.homeoffice.gov.uk/docs2/familysupportinfo.pdf>

Connexions: <http://www.connexions.gov.uk/partnerships/index.cfm?CategoryID=3>

Positive Activities: <http://www.youth-justice-board.gov.uk/YouthJusticeBoard/Prevention/PositiveActivities/>

Youth Inclusion Programme : <http://www.youth-justice-board.gov.uk/YouthJusticeBoard/Prevention/YIP/>
Warm Front: http://www.nao.gov.uk/publications/nao_reports/02-03/0203769.pdf

XI. CONCLUSION

This section brings together the material presented on individual services in order to generate an overall estimate of public spending on children, how this has changed over time, and how this differs between poorer and better-off children. The picture is a reasonably positive one from children's perspective, but with some concerns that are highlighted at the end of this section.

Apportioning public spending on children is relatively straightforward for some services, such as schools and social care, where the service is only provided to children or where children's services are clearly delineated from services for adults. But this is more difficult for services that are used jointly by children and adults (as for health care) or where the benefits are shared by the whole family (as for social security and housing). Assumptions have to be made about how to apportion the benefits between children and other service users or benefit recipients. In the case of health care, overall spending is allocated in proportion to people's use of different health care services, using administrative data on patients. In the case of social security and housing, survey data is used to estimate the value of cash or in-kind benefits to households with children and these are distributed equally between household members, including children.

Two sets of estimates are made for those benefits that are provided to households, rather than individuals (i.e. for social security and housing). One set of estimates is calculated by dividing the total cash or in-kind benefit received by each household by the number of persons living in that household. This effectively assumes there are no economies of scale within larger households (i.e. no benefits to sharing). The second set of estimates allows for economies of scale and for differences in the cost of supporting adults, older children, and younger children (using the McClements scale), so that the value of a given per capita cash or in-kind subsidy has a greater impact on the living standards of larger households¹². Since children typically live in larger households than pensioners, allowing for economies of scale increases the estimated value of public spending on children (and reduces the estimated value of public spending on pensioners).

Spending on children

Table 17 shows that the value of public spending on children is, on average, between £4,700-5,200 per child. Around half of this is on education, a quarter on social security benefits, and a quarter on health, social care, and housing. Overall, per capita spending on children is around twice as great as spending on working age adults and two thirds of that on pensioners. The balance of spending is also very different between age groups. Most education spending is on children, whilst the majority of health care spending is on older people. Social security, social care, and housing also favour pensioners, though children benefit more from these services than working age adults.

Three factors help to explain this pattern of spending, of which the first is by far the most important:

- life-cycle factors: the need for certain services is concentrated at particular points in people's lifetimes – education in the early part of a person's life and health care, social care, and pensions towards the end;

¹² A further adjustment is then made to ensure that the overall value of public subsidies (across all households) is the same before and after the adjustment for economies of scale.

- poverty effect: those on low incomes, which include a disproportionate number of children and older people, generally have greater needs - most notably for social security, but also for other public services;
- policy effect: some government policies explicitly favour certain groups in otherwise similar circumstances – tax credits, for example, have until fairly recently been concentrated largely on families with children.

Table 17: Overall value of public spending on benefits and services, 2001/02¹

<i>(£s per person, 2001/02 prices)²</i>	Children	Working age adults	Pensioners	All persons	Ratio of spending on children to average for all persons
Education ³	2460	350	0	750	3.3
Social security ⁴	1040-1410	920-950	3880-4490	1480	0.7-1.0
Health ⁵	450	630	2080	820	0.5
Social care ⁶	310	100	570	230	1.4
Housing ⁷	390-520	360-370	610-760	430	0.9-1.2
Total	4650-5150	2370-2400	7140-7890	3710	1.3-1.4

Source: own estimates based on analysis presented in previous sections of this report.

Notes to Table 17:

1. Except for health and housing, where figures are for 2000/01 (adjusted to 2001/02 prices).
2. Figures are rounded to the nearest £10.
3. Spending per child is equal to total spending on schools divided by the child population (aged 0-16) to allow for the fact that some secondary school pupils are aged 16-17. Figures are for 2001/02 to be more consistent with the estimates for other services and so are marginally lower than the figures presented in Table 4 (for 2002/03). Spending on “working age adults” is equal to spending on further and higher education divided by the total working age population.
4. Based on data on the receipt of benefits and tax credits from the 2001/02 Family Resources Survey. Figures exclude housing benefit. For children, the upper bound estimates allow for economies of scale within larger households and the lower bound estimates assume no economies of scale – and vice-versa for pensioners.
5. Covers spending on hospital and community health services, general medical services, and pharmaceutical services (but not dental services, ophthalmic services, or central and miscellaneous health care services). Spending is apportioned between age groups according to their use of different health care services (see Section VII for more details).
6. Spending per person on each age group is equal to total social services spending on that client group divided by the corresponding population (aged 0-15, 16-64, and 65+).
7. Figures are based on 2000/01 data (in 2001/02 prices). Includes Housing Benefit, the estimated in-kind benefit from sub-market rents in social rented sector, and the value of the Right To Buy discount to ex-social sector tenants who purchased their home.

Changes since 1997

Since Labour came into power in 1997, there has been a substantial increase in public expenditure on services, especially since 1999/00. Children appear to have benefited most from this increase in expenditure (see Table 18). Public spending per child grew by between 17-19 per cent in real terms between 1996/97 and 2001/02, compared to an increase of 12-13 per cent for pensioners and just 2 per cent for working age adults.

This is due to two factors. Firstly, changes in the balance of spending within individual spending areas has tended to favour children. In the case of education, there has been an increase in the share spent on schools and a corresponding reduction in the share spent on further and higher education. In the case of social security, tax and benefit policies have strongly favoured children and pensioners, relative to working age adults. In the case of social care, a greater share of the budget is now spent on children's services than in 1996/97. The removal of MIRAS had a disproportionate impact on households with children and health care spending on older children has fallen relative to other age groups, but these effects are more than offset by changes in other spending areas.

Table 18: Increase in value of public spending on benefits and services, 1996/7-2001/02

<i>(% increase in real terms)</i>	Children	Working age adults	Pensioners	All persons
Education	30%	3%	-	19%
Social security	12%	0%	13%	7%
Health	14%	15%	19%	16%
Social care	30%	26%	9%	24%
Housing	-15%	-17%	-2%	-13%
Total	17-19%	2%	12-13%	9%

Source: own estimates based on analysis presented in previous sections of this report.

1. Figures are rounded to the nearest £10.
2. Estimates of spending per person in 1996/97 based on same methodology as for Table 17.

Secondly, the education budget has grown at a faster rate than average; this favours children who are the main beneficiaries of education spending. Recent increases in the health care budget (since 2000/01) are not, however, reflected in these figures; these would favour older age groups, especially pensioners, who receive a more-than-proportionate share of health care spending. (A crude adjustment to allow for the effect of recent increases in health care spending puts spending increases on pensioners on a par with children, though both groups still fare considerably better than working age adults.)

International comparisons

Some international comparisons of government spending are possible for education and social security – the two most important spending areas for children. These show that spending on education in the UK is a little below the OECD average and lower than in most EU countries. Spending per pupil on pre-school education is relatively high, whilst spending on primary education is relatively low. The UK tax and benefit system is found to be one of the most generous for families on low earnings – second only to the US – and fairly generous to middle income working families and non-working families – sixth and seventh out of the 22 countries

in this study, respectively, although the latter ranking is quite sensitive to the treatment of housing costs.

Spending on poor children

As noted in the introduction, we would expect spending on poor children to be significantly higher than spending on other children. Certain services, such as social security and housing, are specifically targeted at low income groups. Poor children also make greater use of universal services, such as education, health, and social care, because they generally have a greater need for these services; they are more likely to have additional educational needs, to be in poor health, and have problems at home. To ensure consistency across services, children are defined as poor if they are living in households that are in receipt of Income Support or income-based Job Seeker's Allowance. In 2001/02, 20 per cent of children were poor by this definition.

Apportioning spending on poor children is more straightforward in some cases, such as social security or health care, where survey data is available on the receipt of cash benefits or the use of health care services by individuals or households. Survey data is less useful in some cases, such as education. Although we know if children in these households are attending a state school, we do not know how much is spent on each child, which as we have seen varies substantially between local authorities. For education and social care, we use information on the distribution of funding between more and less deprived areas to estimate the amount spent on poor children relative to non-poor children. In these cases, an assumption needs to be made about how much of the additional funding is actually spent on poor children living in more deprived areas. At one extreme, all additional funding – over and above the level of spending in the 10 per cent least deprived areas – is assumed to be spent on poor children. At the other extreme, we assume that the additional funding to more deprived areas is shared equally between all children living in those areas, including non-poor children. The reality will lie somewhere between these two extreme positions. In the case of schools, for example, we know that local authorities in more deprived areas are required to allocate more funding to schools with a high proportion of poor children, so poor children should benefit disproportionately from the additional funding allocated to more deprived areas. But, the social needs components in local funding formulae are given less weight than in the national formula, so at least part of the extra funding goes to schools in better off neighbourhoods within poor authorities. Within schools with a high proportion of poor children, pressures on budgets may also mean that at least part (and perhaps most) of the extra funding that is provided to meet the additional educational needs of poor children is diverted to other uses that do not specifically benefit poor children within these schools.

The results of this analysis are summarised in Table 19 below. Overall, it is estimated that spending on poor children – those living in households that are in receipt of Income Support or income-based JSA – is, on average, around twice as great as on non-poor children. All public services are pro-poor, but the degree of this pro-poor bias is, not surprisingly, greatest in the case of social security and housing, which are targeted at children living in the poorest households. These two services alone account for between 70-90 per cent of the difference in spending between poor and non-poor children. Social care is also likely to be strongly pro-poor if, as seems likely, most of the additional spending in more deprived areas is on children from poorer households. Universal services, such as health care and education, are less pro-poor.

Table 19: Value of public spending on benefits and services for poor children, 2001/02

<i>(£s per person, 2001/02 prices)¹</i>	Poor children ²	Non-poor children	Ratio of spending on poor to non- poor children
Education ³	2570-3110	2310-2430	1.06-1.35
Social security ⁴	2480-3400	680-910	3.66-3.75
Health ⁵	480-610	430-460	1.03-1.43
Social care ³	370-810	200-300	1.22-4.10
Housing ⁴	1220-1650	180-230	6.80-7.03
Total	7110-9570	3790-4330	1.87-2.21

Source: own estimates based on analysis presented in previous sections of this report.

2. Figures are rounded to the nearest £10.
3. Poor children are defined as those children living in families who are in receipt of Income Support or income-based JSA.
4. Upper bound estimates for poor children assume all additional funding (above the average in the richest 10% of authorities) is spent on poor children. Lower bound estimates assume that additional funding is spread evenly between poor and non-poor children living in more deprived areas.
5. As for Table 17, broken down by children living in households in receipt of/ not in receipt of Income Support or income-based JSA and converted into 2001/02 prices.
6. Using survey data on use of health care services by children living in households in receipt/ not in receipt of Income Support. Range reflects statistical uncertainty around estimates of service use by poor children, using 90% confidence intervals.

There is also evidence that spending on children has become more pro-poor over the period since 1997. Although all households with children have benefited to some degree from recent changes in tax and benefit policies, the increases have been greatest (in absolute and proportional terms) for those families on relatively low incomes, especially those with young children. The increase in the pro-poor bias would be even greater if the definition of poor were to include households in receipt of tax credits; these households, who are also on relatively low incomes, have benefited substantially from the increased generosity of the new tax credits. In the case of education, recent changes to national funding formulae have ensured that a greater share of funding is allocated to children living in the most deprived areas. On average, the difference in spending per child on education between the 10 per cent most deprived authorities and the 10 per cent least deprived authorities has increased from 16 per cent in 1997/98 to 24 per cent in 2003/04, though the impact on poor children may be limited (see below). It is also likely that recent changes to health funding formulae will have favoured those living in the most deprived areas, though it is not possible to tell how much children (let alone poor children) within these areas will have benefited. The biggest policy change in relation to housing is the removal of MIRAS, which has also increased the pro-poor bias in housing subsidies, because relatively few poor families have a mortgage – 11 per cent, compared to 70 per cent of non-poor households with children.

The proliferation of special initiatives under this Government also has implications for the amount of public spending on poor children, because many of these programmes are aimed at improving the outcomes of children living in the most deprived neighbourhoods. Together, the child-focused initiatives identified in this report add up to an annual equivalent expenditure of up to £2.5bn – or around 5% of the total value of public spending on children. This figure under-estimates their importance to certain groups of children, including those children living in the most deprived areas and, in particular, pre-school children in poor areas,

who are the target group for many of these initiatives. For these children, these special initiatives will represent a more significant share of total public spending. Furthermore, the importance of these initiatives should not only be judged by the size of their budget, but also by possible knock-on effects on the efficiency of mainstream services at a local level.

Some concerns

So far, the picture presented is a fairly positive one from a children's perspective. Public expenditure on children is higher-than-average and has been rising at a faster rate since 1997 than spending on other age groups. In addition, spending is heavily skewed in favour of the poorest children, who have around twice as much spent on them as other children, and it is likely that this pro-poor bias has increased in recent years.

However, outcomes for the poorest children are still very much worse than for children from better-off families. Although spending is skewed towards poorer children, more clearly needs to be done to reduce inequalities in income, and in educational, health, and other outcomes. Arguably, spending is still not sufficiently skewed towards children with the greatest needs, whilst recognising that higher spending is not the only answer to many of these problems.

There are also concerns about how much of the additional resources allocated to poorer children are reaching these children. In the case of **education**, there is a clear tendency for authorities in the more deprived areas to spend less on education relative to their central allocations than authorities in less deprived areas. Whilst most local authorities have been giving a relatively high priority to spending on education in recent years, the most deprived authorities seem to be more constrained in the priority they are able to give to spending on education, possibly because they face greater pressures on other budgets.

Perhaps more importantly, changes to the national funding formulae for education may have little impact on the amount spent on poor children unless there are more effective mechanisms in place at the local level to ensure that additional funding reaches the poorest children within each authority. On their own, national funding formulae that allocate more money to more deprived authorities are not a very effective way of targeting poor children; even within the most deprived authorities, the majority of children are not poor, whilst many poor children live in less deprived authorities¹³ (Tunstall and Lupton, 2003). If education spending were distributed evenly between all children living within each authority, per capita spending on poor children would only be 6 per cent higher than on non-poor children.

This highlights the importance of local mechanisms for targeting spending on poor children. There is, however, an apparent inconsistency in the current system of funding, because local funding formulae for schools generally give less weight to social needs than the national funding formula. As a result, schools in the poorest neighbourhoods do not receive the extra resources they require to meet the educational needs of children living in their catchment area. Further research is also needed into how schools in poor neighbourhoods use the additional resources they receive and, in particular, how much of any extra funding is spent in ways that directly benefit the poorest children within these schools – on which current evidence is very limited.

¹³ Based on the definition used in this report, only just over a third of children living in the poorest 20 per cent of authorities (out of 150) are in households in receipt of Income Support, whilst seven out of ten poor children live outside the poorest 20 per cent of authorities.

In the case of **social security**, not all households with children will have benefited from recent changes in the tax and benefit system, either because they are not claiming benefits to which they are entitled to or because they will have been adversely affected by specific tax rises. More generally, there is a difficult balance to strike between income-related benefits – which are more closely targeted at the poor - and universal benefits – which are more popular, have higher take-up rates, and fewer disincentive effects.

In the case of **health**, the Department of Health's own estimates suggest that spending on school-age children fell between 1996/97 and 2000/01 – both in absolute terms and relative to spending other age groups. If these figures are accurate, then it would appear that older children have not benefited from recent increases in health care spending (though pre-school children have). There is also some – albeit fairly weak - evidence that children from low income households may be using fewer health services in relation to needs than other children. Children from low income households are significantly more likely to report a long-standing illness or general health problems over the last year than children from high income households, yet there are no statistically significant differences in their respective use of major health care services.

In the case of **social care**, there are substantial local variations in the amount spent on looked after children. Average expenditure per looked after child varies by a factor of two or more between the highest and lowest spending authorities. Although there may be good reasons for spending more in some areas than others – not all looked after children will have the same needs and the costs of providing a given level of service will also vary between areas - it seems hard to justify this degree of variation in spending. Thus, in some areas it seems likely that some of our most vulnerable children are not receiving the services they need.

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Annex A: Indicators of Children's Needs in England by Local Authority

Local authority	Ranking on deprivation index (IMD 2000)	Proportion of children living in households dependent on income support	Proportion of children with Special Educational Needs	Proportion of children with long-standing illness	Proportion of children looked after by social services
ENGLAND	-	19.8%	19.7%	2.3%	52
Tower Hamlets	149	58.1%	22.8%	3.2%	53
Liverpool	148	42.7%	23.4%	3.3%	111
Knowsley	147	42.1%	22.8%	3.1%	64
Manchester	146	46.6%	18.1%	3.5%	111
Hackney	145	45.5%	28.4%	3.6%	97
Newham	144	44.0%	20.3%	2.9%	75
Middlesbrough	143	35.2%	21.4%	3.1%	65
Nottingham	142	39.3%	24.8%	3.3%	92
Islington	141	47.7%	26.7%	3.1%	140
Southwark	140	40.5%	25.4%	3.1%	114
Hartlepool	139	29.9%	21.5%	2.5%	54
Kingston-upon-Hull	138	33.7%	21.0%	2.9%	92
South Tyneside	137	30.1%	20.1%	2.5%	83
Sunderland	136	26.6%	21.0%	2.7%	74
Salford	135	30.0%	19.3%	2.8%	116
Newcastle upon Tyne	134	32.6%	20.1%	3.0%	76
Barnsley	133	24.9%	16.4%	2.9%	62
Blackburn with Darwen	132	26.6%	22.3%	2.5%	72
Sandwell	131	30.0%	26.0%	3.0%	66
Haringey	130	43.8%	22.9%	2.9%	91
Rochdale	129	26.4%	17.6%	2.9%	45
Birmingham	128	33.1%	20.7%	3.1%	68
Halton	127	31.0%	19.0%	3.2%	56
Stoke on Trent	126	28.1%	17.8%	2.8%	65
Wolverhampton	125	28.4%	12.7%	2.9%	67
Leicester	124	28.7%	24.7%	2.6%	71
Gateshead	123	25.8%	17.9%	2.7%	64
Doncaster	122	24.0%	18.8%	2.7%	64
St Helens	121	24.8%	17.8%	2.7%	68
Blackpool	120	26.3%	21.9%	2.6%	95
Rotherham	119	23.4%	19.4%	3.1%	70
Redcar and Cleveland	118	26.6%	18.7%	3.0%	58
Oldham	117	25.0%	16.8%	2.4%	55
Walsall	116	24.5%	17.8%	3.0%	65
Barking & Dagenham	115	32.6%	17.9%	2.8%	69
Lambeth	114	40.0%	24.5%	3.2%	124
Bradford	113	27.1%	19.3%	2.8%	55
Wirral	112	27.9%	17.2%	2.7%	55
Camden	111	37.7%	24.7%	2.9%	83
Sheffield	110	23.7%	20.7%	3.0%	60
Greenwich	109	36.1%	30.4%	2.8%	94
Lewisham	108	33.7%	24.3%	2.9%	93
Durham	107	22.0%	20.8%	2.6%	40
Tameside	106	22.2%	17.1%	2.3%	47
Wakefield	105	20.8%	15.7%	2.5%	61
Wigan	104	18.6%	21.5%	2.6%	60
Brent	103	31.2%	21.0%	2.7%	54
Bolton	102	22.4%	21.2%	2.8%	43
North Tyneside	101	21.8%	17.0%	2.5%	79

Local authority	Ranking on deprivation index (IMD 2000)	Proportion of children living in households dependent on income support	Proportion of children with Special Educational Needs	Proportion of children with long-standing illness	Proportion of children looked after by social services
Sefton	100	22.3%	19.9%	2.7%	49
Stockton-on-Tees	99	23.7%	15.7%	2.8%	45
North East Lincolnshire	98	24.1%	28.0%	2.3%	73
Waltham Forest	97	32.6%	25.3%	2.7%	55
Torbay	96	21.8%	19.9%	2.7%	93
Coventry	95	23.6%	18.9%	2.4%	68
Plymouth	94	22.6%	19.6%	2.8%	83
Derby	93	25.5%	16.1%	2.4%	75
Hammersmith & Fulham	92	36.3%	25.9%	3.3%	128
Kirklees	91	20.0%	19.4%	2.5%	31
Luton	90	25.1%	22.0%	2.3%	67
Bristol	89	25.5%	22.0%	2.7%	65
Darlington	88	21.4%	18.0%	2.3%	51
Southampton	87	25.5%	32.8%	2.5%	86
Isle of Wight	86	20.2%	22.9%	2.6%	63
Brighton	85	23.4%	22.4%	2.6%	74
Calderdale	84	21.0%	16.7%	2.2%	44
Cornwall	83	16.9%	20.9%	2.5%	57
Leeds	82	20.1%	19.4%	2.5%	80
Enfield	81	27.2%	23.8%	2.2%	43
Ealing	80	27.9%	22.7%	2.6%	59
Thurrock	79	19.7%	20.7%	2.3%	58
Telford & Wrekin	78	22.2%	0.0%	2.4%	47
Bournemouth	77	19.6%	17.9%	2.4%	67
Northumberland	76	16.2%	13.2%	2.1%	43
North Lincolnshire	75	18.1%	20.3%	2.3%	51
Hounslow	74	26.6%	20.9%	2.2%	66
Dudley	73	18.5%	18.2%	2.4%	54
Bury	72	17.5%	19.8%	2.6%	50
Portsmouth	71	21.1%	27.9%	2.4%	62
Slough	70	21.9%	19.5%	2.7%	53
Peterborough	69	24.2%	22.9%	2.5%	91
Lancashire	68	17.9%	18.4%	2.3%	49
Derbyshire	67	14.9%	15.6%	2.1%	40
Wandsworth	66	26.9%	25.1%	3.0%	75
Nottinghamshire	65	16.2%	17.6%	2.3%	32
Southend	64	23.5%	15.1%	2.2%	66
Cumbria	63	15.7%	18.8%	2.1%	50
Westminster	62	36.5%	22.7%	2.8%	69
Lincolnshire	61	14.0%	18.7%	2.3%	39
Warrington	60	14.0%	18.0%	2.0%	36
Redbridge	59	20.7%	16.6%	2.1%	25
Norfolk	58	15.8%	22.0%	2.2%	42
Medway	57	18.2%	27.6%	2.0%	54
Croydon	56	23.5%	20.6%	2.2%	61
Trafford	55	16.6%	15.8%	2.2%	33
Devon	54	13.3%	17.0%	2.2%	48
Stockport	53	14.9%	22.1%	2.1%	61
Reading	52	19.6%	20.8%	2.8%	43
Kensington & Chelsea	51	23.0%	20.6%	2.1%	73
Herefordshire	50	12.0%	19.7%	1.9%	52

Local authority	Ranking on deprivation index (IMD 2000)	Proportion of children living in households dependent on income support	Proportion of children with Special Educational Needs	Proportion of children with long-standing illness	Proportion of children looked after by social services
Kent	49	16.2%	21.6%	2.1%	58
East Sussex	48	15.8%	20.5%	2.3%	44
Solihull	47	13.8%	16.2%	2.1%	38
Shropshire	46	10.7%	19.0%	2.1%	27
Hillingdon	45	19.9%	18.0%	2.2%	73
Staffordshire	44	12.8%	13.6%	2.2%	30
Somerset	43	12.1%	18.6%	2.0%	30
East Riding of Yorkshire	42	11.8%	13.9%	1.8%	30
Swindon	41	14.6%	21.2%	2.2%	38
Milton Keynes	40	16.5%	19.4%	2.3%	45
Merton	39	18.5%	23.5%	2.2%	44
Cheshire	38	12.6%	15.4%	2.2%	31
Poole	37	15.2%	21.0%	2.3%	46
Barnet	36	18.7%	24.1%	1.8%	38
Essex	35	14.4%	15.0%	2.0%	41
Havering	34	16.3%	15.3%	1.9%	30
Suffolk	33	13.2%	16.6%	2.1%	42
City of London	32	17.8%	0.0%	2.1%	0
Worcestershire	31	12.1%	18.3%	2.1%	50
Harrow	30	17.7%	21.2%	1.9%	37
Bexley	29	17.9%	18.8%	2.1%	41
Warwickshire	28	11.7%	27.1%	2.0%	29
Dorset	27	10.9%	23.9%	2.0%	32
North Yorkshire	26	10.1%	15.8%	2.0%	30
Northamptonshire	25	14.0%	23.3%	2.1%	41
Gloucestershire	24	11.9%	19.7%	2.0%	43
Sutton	23	14.3%	15.8%	1.9%	39
York	22	13.6%	18.1%	2.1%	38
Bedfordshire	21	12.7%	18.6%	1.9%	39
Bath & NE Somerset	20	11.7%	18.4%	1.8%	41
North Somerset	19	11.5%	18.7%	1.9%	41
West Sussex	18	11.3%	20.4%	1.9%	47
Wiltshire	17	9.5%	19.4%	2.0%	26
Bromley	16	15.2%	19.5%	2.0%	47
Leicestershire	15	9.2%	16.4%	1.9%	21
Cambridgeshire	14	10.4%	19.1%	2.0%	30
Hertfordshire	13	11.3%	18.2%	1.8%	33
Hampshire	12	10.1%	25.4%	1.9%	32
South Gloucestershire	11	10.2%	16.4%	1.7%	24
Oxfordshire	10	10.2%	19.8%	2.1%	32
Bracknell Forest	9	8.3%	18.9%	1.9%	26
Kingston upon Thames	8	12.1%	16.9%	1.9%	31
Rutland	7	5.4%	17.2%	1.7%	0
West Berkshire	6	7.9%	18.2%	1.7%	35
Buckinghamshire	5	9.3%	17.5%	1.8%	24
Surrey	4	8.1%	19.2%	1.8%	29
Richmond upon Thames	3	10.7%	21.7%	1.7%	29
Windsor & Maidenhead	2	8.4%	19.5%	2.1%	22
Wokingham	1	4.9%	12.6%	1.6%	24

Annex B: Brief Guide to Local Government Finance Settlement

The annual Local Government Finance Settlement (LGFS) determines the distribution of revenue grants to local government to finance the cost of running local services other than council housing (which is financed separately). The services covered by the LGFS are:

- Education
- Personal Social Services
- Police
- Fire
- Highways maintenance
- Environmental, protective, and cultural services

Most government funding is via the Formula Grant. Although the amount allocated to local authorities is based on service-specific formulae (see below), there are no restrictions on how local authorities spend their overall allocation. In addition, local authorities receive a smaller share of their funding in the form of ring-fenced grants, which must be used to fund particular services or initiatives that are considered a national priority.

To work out each council's share of the Formula Grant, the Government first calculates a Funding Formula Share (FSS), based on funding formulae that include information on the population and other social characteristics of each authority that reflect relative need. These FSS formulae are a way of dividing up the resources that are available – how the cake is sliced - rather than how large the cake should be, which is determined separately in the Spending Review. The structure of these formulae is discussed in more detail below.

An authority's unadjusted Formula Grant is equal to its Formula Spending Share less the amount of revenue it would receive if it set its Council Tax at the assumed national level. The principle behind this – known as “resource equalisation” - is that for a given level of council tax rates, each authority's budget should reflect differences in the need for services in their area relative to other areas. A further adjustment is then made to the Formula Grant to ensure that all authorities receive at least a minimum increase (or “floor”) in their Formula Grant. To pay for the floor, a maximum increase (or “ceiling”) is imposed and the allocation to all other authorities is adjusted downwards to cover any remaining shortfall.

This report focuses in more detail on the funding formulae used to determine the FFS for education and personal social services, which are the most important services for children. These service areas are further divided into sub-blocks with their own separate formulae. For example, the PSS includes a sub-block for children's services and the education block has separate sub-blocks for the under fives, primary schools, secondary schools, high cost pupils, youth and community services, and LEA central functions. Each formula has a common structure:

- A basic amount for each client that is the same for each authority (e.g. each primary school pupil);
- A deprivation Top-Up that allows for the additional costs of providing services in more deprived areas;
- An Area Cost Top-Up that allows for the variation in wages and business rates across the country;

- Other Top-Ups that address a range of other cost pressures that are relevant for particular services (e.g. rural sparsity).

The second of these components determines how much additional resources are allocated to the poorest areas and, indirectly, to the poorest children. The extent of the pro-poor bias depends on two factors. Firstly, it depends on the amount of funding allocated through this component of the funding formula (relative to other components). In the case of education, just under a fifth of the total is allocated on the basis of deprivation-related indices.

Secondly, it depends on the choice of indicators that are used to proxy for relative need, in particular how skewed these are in favour of children living in the most deprived areas. The weight attached to different indicators is based largely on technical (regression-based) analyses, exploring the past relationship between spending on specific services and various need-based indicators. Political discretion also plays a part in this process – for example, Ministers decided to use a wider definition of poverty in the education FSS, by including families in receipt of Working Families Tax Credit, as well as those in receipt of Income Support (see below). The indicators used in the education and children's PSS sub-blocks are as follows:

- The proportion of children living in families in receipt of Income Support (education sub-blocks and children's PSS);
- The proportion of children living in families in receipt of Working Families Tax Credit (education sub-blocks);
- The proportion of children living in one adult households (children's PSS);
- The density of population of the area (children's PSS)
- The proportion of children living in flats (children's PSS)
- The proportion of children with a limiting long-standing illness (children's PSS)

The overall effect of the funding formulae on the distribution of resources by level of deprivation is examined in the individual sections of this report, using data from the most recent settlements. Comparisons are also made with previous settlements to assess whether the allocations have become more or less pro-poor over time.

It is important to re-emphasise that local authorities may choose to spend more or less than the amounts they are allocated for individual services, so the figures that come out of the annual settlements do not represent actual expenditure. But, they do provide an indication of how much extra central government believes should be spent on children's services in the most deprived areas.

Annex C: Funding per Pupil by Local Authority, 1997/98-2003/04

Local authority	Ranking on deprivation index (IMD 2000)	£ per pupil, 1997/98 (2002/03 prices)	£ per pupil, 2003/04 (2002/03 prices)	% increase: 1997/98-2003/04
ENGLAND	-			
Tower Hamlets	149	4210	5580	33%
Liverpool	148	3030	4030	33%
Knowsley	147	3040	4020	32%
Manchester	146	3110	4220	36%
Hackney	145	4360	5490	26%
Newham	144	3660	4580	25%
Middlesbrough	143	2830	3880	37%
Nottingham	142	3000	3940	31%
Islington	141	4020	5290	32%
Southwark	140	4010	5060	26%
Hartlepool	139	2680	3650	36%
Kingston-upon-Hull	138	2820	3730	32%
South Tyneside	137	2730	3720	36%
Sunderland	136	2690	3610	34%
Salford	135	2720	3730	37%
Newcastle upon Tyne	134	2980	3830	29%
Barnsley	133	2650	3530	33%
Blackburn with Darwen	132	2810	3830	36%
Sandwell	131	2740	3660	34%
Haringey	130	3660	4700	28%
Rochdale	129	2730	3680	35%
Birmingham	128	2930	3910	33%
Halton	127	2810	3800	35%
Stoke on Trent	126	2640	3650	38%
Wolverhampton	125	2800	3710	33%
Leicester	124	2910	3830	32%
Gateshead	123	2650	3650	38%
Doncaster	122	2710	3600	33%
St Helens	121	2660	3590	35%
Blackpool	120	2710	3530	30%
Rotherham	119	2690	3570	33%
Redcar and Cleveland	118	2680	3630	35%
Oldham	117	2700	3620	34%
Walsall	116	2660	3440	29%
Barking & Dagenham	115	3080	4050	31%
Lambeth	114	4410	5360	22%
Bradford	113	2810	3770	34%
Wirral	112	2730	3630	33%
Camden	111	4210	5310	26%
Sheffield	110	2750	3600	31%
Greenwich	109	3720	4830	30%
Lewisham	108	3970	4990	26%
Durham	107	2640	3470	31%
Tameside	106	2580	3410	32%
Wakefield	105	2580	3340	29%
Wigan	104	2560	3320	30%
Brent	103	3570	4490	26%
Bolton	102	2630	3410	30%
North Tyneside	101	2610	3500	34%

Local authority	Ranking on deprivation index (IMD 2000)	£ per pupil, 1997/98 (2002/03 prices)	£ per pupil, 2003/04 (2002/03 prices)	% increase: 1997/98- 2003/04
Sefton	100	2660	3530	33%
Stockton-on-Tees	99	2640	3620	37%
North East Lincolnshire	98	2690	3460	29%
Waltham Forest	97	3460	4310	25%
Torbay	96	2840	3370	19%
Coventry	95	2790	3590	29%
Plymouth	94	2800	3390	21%
Derby	93	2730	3520	29%
Hammersmith & Fulham	92	4140	5230	26%
Kirklees	91	2680	3510	31%
Luton	90	3010	3840	28%
Bristol	89	2730	3580	31%
Darlington	88	2610	3380	30%
Southampton	87	2920	3650	25%
Isle of Wight	86	2920	3630	24%
Brighton	85	2960	3670	24%
Calderdale	84	2650	3460	31%
Cornwall	83	2680	3390	26%
Leeds	82	2660	3530	33%
Enfield	81	3180	4020	26%
Ealing	80	3230	4280	33%
Thurrock	79	2970	3690	24%
Telford & Wrekin	78	2730	3430	26%
Bournemouth	77	2840	3320	17%
Northumberland	76	2630	3450	31%
North Lincolnshire	75	2640	3420	30%
Hounslow	74	3210	4170	30%
Dudley	73	2450	3230	32%
Bury	72	2510	3310	32%
Portsmouth	71	2860	3570	25%
Slough	70	3260	4170	28%
Peterborough	69	2820	3650	29%
Lancashire	68	2660	3370	27%
Derbyshire	67	2550	3260	28%
Wandsworth	66	3800	4750	25%
Nottinghamshire	65	2640	3250	23%
Southend	64	2920	3580	23%
Cumbria	63	2560	3430	34%
Westminster	62	4070	5140	26%
Lincolnshire	61	2670	3410	28%
Warrington	60	2540	3170	25%
Redbridge	59	3160	3740	18%
Norfolk	58	2740	3410	24%
Medway	57	2780	3450	24%
Croydon	56	3130	3860	23%
Trafford	55	2590	3320	28%
Devon	54	2750	3350	22%
Stockport	53	2490	3200	29%
Reading	52	2870	3740	30%
Kensington & Chelsea	51	4110	5440	32%
Herefordshire	50	2750	3460	26%

Local authority	Ranking on deprivation index (IMD 2000)	£ per pupil, 1997/98 <i>(2002/03 prices)</i>	£ per pupil, 2003/04 <i>(2002/03 prices)</i>	% increase: 1997/98- 2003/04
Kent	49	2810	3520	25%
East Sussex	48	2820	3530	25%
Solihull	47	2500	3230	29%
Shropshire	46	2670	3360	26%
Hillingdon	45	3040	3780	24%
Staffordshire	44	2520	3200	27%
Somerset	43	2630	3310	26%
East Riding of Yorkshire	42	2560	3270	28%
Swindon	41	2670	3260	22%
Milton Keynes	40	2940	3620	23%
Merton	39	3050	3870	27%
Cheshire	38	2580	3250	26%
Poole	37	2690	3220	20%
Barnet	36	3080	3900	27%
Essex	35	2830	3490	23%
Havering	34	2860	3550	24%
Suffolk	33	2680	3280	22%
City of London	32	4800	5910	23%
Worcestershire	31	2670	3220	21%
Harrow	30	3000	3850	28%
Bexley	29	2880	3580	24%
Warwickshire	28	2550	3320	30%
Dorset	27	2680	3280	22%
North Yorkshire	26	2620	3370	29%
Northamptonshire	25	2610	3340	28%
Gloucestershire	24	2630	3300	25%
Sutton	23	3030	3690	22%
York	22	2570	3210	25%
Bedfordshire	21	2740	3450	26%
Bath & NE Somerset	20	2560	3240	27%
North Somerset	19	2600	3280	26%
West Sussex	18	2810	3400	21%
Wiltshire	17	2660	3330	25%
Bromley	16	2900	3600	24%
Leicestershire	15	2580	3160	22%
Cambridgeshire	14	2600	3320	28%
Hertfordshire	13	2830	3450	22%
Hampshire	12	2650	3310	25%
South Gloucestershire	11	2490	3160	27%
Oxfordshire	10	2810	3470	23%
Bracknell Forest	9	2840	3520	24%
Kingston upon Thames	8	2880	3610	25%
Rutland	7	2520	3320	32%
West Berkshire	6	2660	3490	31%
Buckinghamshire	5	2820	3490	24%
Surrey	4	2810	3420	22%
Richmond upon Thames	3	2880	3500	22%
Windsor & Maidenhead	2	2840	3580	26%
Wokingham	1	2600	3340	28%