

## Summary: Intervention & Options

<b>Department /Agency:</b> HMRC	<b>Title:</b> Impact Assessment of The Child Trust Funds (Amendment No.2) Regulations 2011	
<b>Stage:</b> Implementation	<b>Version:</b> Final	<b>Date:</b> 25 March 2011
<b>Related Publications:</b> The Child Trust Funds (Amendment No.2) Regulations 2011		

**Available to view or download at:**

<http://www.>

**Contact for enquiries:** Declan Norris

**Telephone:** 020 7147 0855

**What is the problem under consideration? Why is government intervention necessary?**

The reduction in the value of the initial government Child Trust Fund (CTF) contribution from £250 to £50 in August 2010 and the subsequent cessation of all government payments to CTF accounts from January 2011 may reduce the profitability of CTF accounts and lead to providers leaving the market. This could have a negative impact for the approximately 6 million children who will have a CTF account and their families.

**What are the policy objectives and the intended effects?**

To help mitigate the impact on providers of the reduction and then ceasing of government payments to CTF accounts the government has introduced regulations reducing the frequency with which CTF providers have to issue annual statements to account holders. This should enable providers to reduce administration costs and encourage firms to remain active in the CTF market, helping maintain a healthy CTF market for children with accounts.

**What policy options have been considered? Please justify any preferred option.**

CTF providers send an annual statement for each account. Whilst this helps customers assess their investment many take no further action. The regulations enable CTF providers to reduce the frequency of statements that they issue to those least likely to make active use of the information. The Government decided against applying the reduction in annual statement frequency to all CTF accounts as this might hinder those who actively manage CTF accounts.

**When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?**

HM Revenue & Customs (HMRC) will keep in regular contact with providers and the Financial Services Authority to ensure that the CTF regime's administrative burden is proportionate.

**Ministerial Sign-off** for implementation stage Impact Assessments:

*I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.*

Signed by the responsible Minister:



.....Date: 26 March 2011

## Summary: Analysis & Evidence

<b>Policy Option:</b>	<b>Description: Reduce the frequency of CTF annual statements to some CTF accounts</b>
-----------------------	--

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' CTF providers may need to make small changes to their literature and systems to reflect the reduced level of statements to some account holders.
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	<b>£ Neg</b>	1	
	<b>Average Annual Cost</b> (excluding one-off)		
<b>£ Neg</b>	18	<b>Total Cost (PV)</b>	<b>£ Neg</b>
Other <b>key non-monetised costs</b> by 'main affected groups'			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' Reducing the frequency with which CTF providers have to issue statements to all accounts holders will enable providers to reduce their administration costs.
	<b>One-off</b>	<b>Yrs</b>	
	<b>£ 0</b>		
	<b>Average Annual Benefit</b> (excluding one-off)		
<b>£ 2m to 4m</b>	18	<b>Total Benefit (PV)</b>	<b>£ 20m to 40m</b>
Other <b>key non-monetised benefits</b> by 'main affected groups' Keeping CTF providers administrative costs down should help maintain a healthy CTF market and maintain value and choice for investors.			

### Key Assumptions/Sensitivities/Risks

An estimated three-quarters of CTF accounts could qualify for reduced annual statement notification under the regulations over the 18 year remaining life of CTF accounts.

Price Base Year 2011	Time Period Years 18	<b>Net Benefit Range (NPV)</b> <b>£ 20m to 40m</b>	<b>NET BENEFIT (NPV Best estimate)</b> <b>£ 30m</b>
-------------------------	-------------------------	---	--

What is the geographic coverage of the policy/option?	UK			
On what date will the policy be implemented?	15/4/2011			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£ Negligible			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	N/A			
What is the value of the proposed offsetting measure per year?	£ 0			
What is the value of changes in greenhouse gas emissions?	£ not quantifiable			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)	
Increase of	£ 0	Decrease of	£ 2.5m
		<b>Net Impact</b>	<b>£ -2.5m</b>

Key: Annual costs and benefits: Constant Prices (Net) Present Value

## Evidence Base (for summary sheets)

### The Issue

The Government wants to reduce the administrative burden on CTF providers to help maintain a healthy CTF market for customers.

### Policy Objectives and intended effects

As part of measures to tackle the UK's record budget deficit the Government reduced and then stopped all government contributions to CTF accounts from January 2011. Children born on or after 3 January 2011 do not qualify for a CTF and existing CTF accounts qualify for no further government payments.

The CTF scheme has been in operation since 2005 and, once all issued CTF vouchers have been used or expired, over 6m accounts will have been opened for children by parents, guardians or HMRC. The money in these accounts may not be withdrawn until the child reaches age 18. The oldest child with a CTF is currently around 8 years old and the youngest was born on 2 January 2011. So CTF accounts will be in existence for many years to come.

CTF accounts are operated by providers authorised by the Financial Services Authority and approved by HMRC. Most providers are building societies, friendly societies, credit unions, banks, insurance companies or mutual societies. The largest CTF providers have hundreds of thousands of accounts and some of the smaller providers (mainly credit unions and mutual societies) have often less than a hundred accounts.

CTF accounts with relatively small amounts of money are low margin products for providers and take a number of years to become profitable. The reduction and then cessation of government payments to CTF accounts has further reduced the profitability of CTF accounts. The concern is that without government action to reduce administrative costs many providers might choose to leave the CTF market.

Where a provider leaves the CTF market they must notify customers of their right to transfer the CTF accounts they hold to another provider. A serious contraction in the CTF market would reduce competition and thereby reduce choice and value for customers.

The Child Trust Funds (Amendment No 2) Regulations 2011 reduce the administrative burden of CTF providers by enabling them to reduce the frequency with which they send statements for some CTF accounts. For such qualifying accounts a statement need only be sent in the year the child reaches ages 4, 10 and 15. All other accounts will continue to receive an annual notification.

### Data and Evidence

Government data shows that 5.45 million CTF accounts were opened as at 15 September 2010. About three quarters of these accounts would qualify for reduced annual statement notification under the Child Trust Funds (Amendment No 2) Regulations 2011. This is because they would meet the criteria in the regulations and either have a market value of under £300 or have not received any in-year contributions during the last year.

This reduction in statement requirements should enable providers to reduce their costs for administering their CTF accounts. This should help keep their overheads down and enable more providers to stay in the CTF market.

## The Options

### Do nothing

The administration requirements of CTFs, including the need to issue annual statements to account holders, are part of the obligations that providers accept when they become an authorised CTF provider. These annual statements are similar to those providers send to customers holding other investment accounts with them. So there is an argument for leaving the annual notification requirement fully in place.

But CTF accounts with relatively small amounts of money are low margin products for providers and take a number of years to become profitable. Following the reduction and then cessation of government payments a number of CTF providers have stopped taking new CTF business. This is despite the fact that there are hundreds of thousands of CTF vouchers still capable of being invested into a CTF account. So we anticipate that, without measures to reduce providers' costs, the CTF market will contract further reducing competition and choice for CTF investors.

This option is therefore not attractive.

### Reduce the frequency of CTF annual statements to some CTF accounts

CTF accounts were set up with an initial government payment, with the family and friends of the child able to together contribute up to £1200 into the account each year. The annual statement allows customers to consider whether the money is invested in the right place and can act as a prompt for further contributions.

However, Government data indicates that while annual statements have been sent to all CTF accounts, only a quarter of accounts have received payments in the following year.

This option involves allowing providers only to issue an annual statement in cases where the CTF account is active - namely cases where a contribution has been paid into the account in the previous year. Additionally the option also requires annual statements to be issued where the account has a market value of more than £300 on the basis that in larger accounts it is more important that the investor has the opportunity to actively manage the investment. Other accounts can get statements only in the year when the child reaches age 4 (just before starting school) age 10 (just before starting secondary education) age 15 (just before the child takes over management of the scheme at age 16).

Under this option those in the reduced annual statement group can receive less frequent information regarding their accounts. So they may be less inclined to monitor whether the money is being held in the right account. But those who want a statement will still be able to request one. And even those accounts that are not sent an annual statement will still automatically be issued with a statement during the 12 month period following the child's 4<sup>th</sup>, 10<sup>th</sup> and 15<sup>th</sup> birthdays.

This option provides the best balance between reducing providers' costs and giving those customers likely to act upon the annual statement the opportunity to receive one. The regulations have therefore been drafted on this basis.

### Reduce the frequency of CTF annual statements to all CTF accounts

An extension of the above option would be to allow providers to send annual statements to all CTF customers only in the year of the child's 4<sup>th</sup>, 10<sup>th</sup> and 15<sup>th</sup> birthdays. Whilst this would have a significant cost savings to providers it is likely that the quarter of customers who actively contribute to their child's CTF account would still want and therefore request an annual statement. These statements would have to be issued using an intervention rather an automatic process and the costs and administration of handling this are likely to somewhat mitigate the previous savings made.

The annual statement also acts as a useful prompt to those customers most likely to engage with their child's CTF. So the cessation might lead to a reduction in the contributions to, and management of, CTF accounts by this group. This could have an adverse effect on the CTF market and, through reducing profitability, encourage more providers to leave the market.

This option is therefore not attractive.

### Forgo CTF annual statements

The final option would be to forgo sending CTF annual statements to all CTF investors. This has similar advantages and disadvantages to the previous option given that whilst there might be an initial administration saving for providers this would likely be counteracted by the need to issue numerous statements on request and a possible reduction in the money flowing into their CTF accounts.

This option is therefore not attractive.

## **Costs & Savings**

### Providers

Reducing the requirement to issue annual statements in the way proposed should mean CTF providers being able to issue significantly reduced numbers of annual statements most years, achieving a worthwhile annual saving in compliance cost for the remainder of the life of CTF accounts. Providers might incur some initial costs to alter their systems and literature, however we do not anticipate these costs will be significant.

### Individuals

Those individuals who will continue to receive an annual statement will experience no additional costs. Most of those who will receive less frequent annual statements would not have acted upon it if received and so the omission will give rise to no additional costs for them. There will be some who would have liked an annual statement and will no longer get one, and so will need to request one from the CTF provider. We anticipate that any additional costs for these individuals arising from this would be likely to be negligible.

## **HMRC**

There will be no operational impacts or costs for HMRC.

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	No
Rural Proofing	No	No

## **Specific impact tests**

### Competition assessment

No impact upon competition between CTF providers is anticipated. Any provider can choose to take advantage of the reduced annual notification requirements offered by the regulations.

### Small firms impact test

Many small firms (mainly credit unions and friendly societies) offer CTF accounts. The reduced annual notification requirement should help them keep down costs and maintain their position in the CTF market.

### Race/Gender/Disability impact tests

The relaxation of the annual statement requirement provided for by these regulations will apply equally to all CTF accounts. But it will be for CTF providers to decide the extent to which they take advantage of the opportunity to issue less frequent annual statements.

### Other impacts

The following issues were considered and regarded as being unaffected by the proposed measure:

- Legal Aid
- Sustainable Development
- Carbon Assessment
- Other Environment
- Health Impact Assessment
- Human Rights,
- Rural Proofing