

Summary: Intervention & Options

Department /Agency: HMRC	Title: Impact Assessment of changing the requirement to hand in a Child Trust Fund voucher in order to open an account
	Date: March 2009
Related Publications: Consultation Stage Impact Assessment - http://www.hmrc.gov.uk/ctf/impact-assessment.pdf	

Available to view or download at:

<http://www.hmrc.gov.uk/ria/index.htm>

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

74% of parents have actively opened their child's Child Trust Fund (CTF) account, while the remainder of accounts are opened by HMRC. In the Budget 2008, the Chancellor announced a measure designed to increase the parental account opening rate of the CTF: namely, removing the requirement that CTF providers receive the CTF voucher in order to open an account. This change was in response to the representations of some CTF providers, who noted that a significant number of applications to open accounts were lost because the parents failed to follow up the application by sending in the voucher.

What are the policy objectives and the intended effects?

The intended effect of this reform is to reduce compliance burdens on providers and to encourage an even higher number of parents to open their child's CTF, by simplifying the account-opening process.

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

Option A was to make it mandatory for providers to open accounts without receiving the voucher from parents. Option B was to remove the legal requirement that the CTF voucher must be seen to open an account, letting providers decide whether or not to ask for the voucher. Option C was to leave the account-opening system as it is (i.e. the 'do nothing' option). Option B is the preferred option being taken forward.

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

The change in the requirement for providers to receive a voucher in order to open an account will be reviewed within two years of the implementation of the measure.

Ministerial Sign-off For final proposal/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) that the benefits justify the costs.

Signed by the responsible Minister:

A handwritten signature in black ink, appearing to read "Ian Kerr". The signature is fluid and cursive, with a large initial "I" and "K".

.....Date: 11/03/2009

Summary: Analysis & Evidence

	Description: Removal of the legal requirement that the CTF voucher be seen by the CTF provider before opening a CTF account.
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' One-off costs reflect anticipated additional IT and staffing needs, and this estimate is informed by recent consultation with providers. Long-run ('steady-state') costs reflect a very small effect from the move to manual operation to accommodate voucherless accounts.	
	One-off (Transition)	Yrs		
	£ 1.5m	5		
	Average Annual Cost (excluding one-off)			
	£ +Neg		Total Cost (PV)	£
Other key non-monetised costs by 'main affected groups'				

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' The benefits are estimated on the basis that there will be significant long-term savings to providers from reduced effort in following-up parents that fail to send in their vouchers for opening CTF accounts.	
	One-off	Yrs		
	£ 0			
	Average Annual Benefit (excluding one-off)			
	£ 175,000		Total Benefit (PV)	£
Other key non-monetised benefits by 'main affected groups' Over time, take-up of CTF accounts may in fact be improved beyond what is assumed in this Impact Assessment.				

Key Assumptions/Sensitivities/Risks

The key sensitivities are around provider costs of engaging with parents that fail to send in a voucher for opening CTF accounts. We have made assumptions about the relative costs before and after the policy change that could turn out to be higher or lower in practice.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
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What is the geographic coverage of the policy/option?	Nationwide			
On what date will the policy be implemented?	6 April 2009			
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?	No			
What is the value of the proposed offsetting measure per year?	£ None			
What is the value of changes in greenhouse gas emissions?	£ n/a			
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	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)
Increase of	£ 0	Decrease of	£ Net Impact £ 0

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

Evidence Base

Purpose and Intended Effect of the Measure

Background

1. The Child Trust Fund (CTF) was introduced in 2005, with the aims of ensuring every child has a financial asset with which to start their adult life, promoting positive attitudes towards saving and improving financial capability. It provides a Government funded endowment of £250 at birth with an additional payment of £250 for children from lower income families. Payments of the same amount will also be made at age 7. Eligibility is based on the award of Child Benefit for a child living in the UK. So far, 74% of parents have actively opened their child's CTF account, while the remainder of accounts have been opened by HM Revenue and Customs (HMRC).
2. This Impact Assessment looks at a measure designed to improve the parental opening rate of the Child Trust Fund: namely, removing the requirement that CTF providers receive the voucher before opening the child's account. This is based on the representations of some CTF providers, who noted that a significant number of applications to open accounts were lost because the parents failed to follow up the application by sending in the voucher.
3. The consultation looked at three options:
 - Option A - to make it mandatory for providers to open accounts without receiving the voucher from parents.
 - Option B - to remove the legal requirement that the voucher must be seen to open an account, but to allow providers to decide whether or not to ask for the voucher.
 - Option C - to leave the account-opening system as it is.
4. Following the consultation stage the preferred option being taken forward is option B which will achieve the desired outcome, without forcing providers to change their systems.

Sectors and Groups Affected

5. This reform has the potential to affect the following groups:
 - New parents with a child eligible for a CTF account (on average, approximately 700,000 children per year);
 - CTF providers (currently 68 providers)
 - CTF distributors (currently 76 distributors) and
 - Her Majesty's Revenue and Customs (HMRC).

Costs and Benefits

Benefits (Option B)

6. For parents:

- Where the provider does offer voucherless account-opening, internet and phone applications will become a one-step rather than a two-step process, as parents would no longer have to follow up the application by sending the voucher in by post. This would make the process easier for parents.

7. For providers:

- Providers will have a choice over how they register CTF accounts. This will allow providers who currently scan data from the microline on the CTF voucher to continue to do so, and will allow each provider to make their own cost benefit analysis of the advantages of moving to a different process. This is especially important given that a significant minority of providers are opposed to making the change.
- Providers will not have to make the transition to a new process at a timetable dictated by the Government. Instead, they will be able to do so when they were in a position to realise the business benefits.
- In the consultation, just over half of providers said that they would make the change if it was optional. These providers will 'lose' fewer accounts from parents failing to send in the voucher, and so they will have the chance to benefit from an increase in the account-openings of between 1% to 5% (depending on their current business model). We estimate that the overall increase in parental account-opening rates could be between 1.5% and 2%.
- Providers will benefit from the cost savings of not having to chase up vouchers that were not sent in. We have sought to estimate the long-term ('steady-state') savings to providers from this relaxation of the rules.
- Specifically, we assume that over time a majority of providers will opt not to demand vouchers from parents as a condition of opening an account, and that this in turn will generate around 10,000 to 15,000 extra CTF accounts per annum (i.e. equivalent to around 1.5%-2% of 2007-08 account openings rates).
- But, in addition, we assume that providers will make savings in respect of some calls that are currently being made in cases where parents eventually do send in their vouchers – we estimate an additional saving for providers from this of around 5,000 follow-up calls per annum. Based on Standard Cost Methodology, we assume that each follow-up enquiry made by a provider would normally cost around £10. Accordingly, the total compliance saving across all providers from this is estimated at £150,000 to £200,000 per annum in steady state (central estimate: £175,000.p.a.) Inevitably, as this estimate is sensitive to a number of assumptions, the actual compliance savings to providers could be further reduced or increased in the long-run

8. For Government:

- Just over half of providers said that they would make the transition to voucherless account opening, so we estimate that it will lead to an increase in parental account opening rates of 1.5% to 2% (and perhaps more in the longer term should other providers also decide to do so).
- By making the CTF account opening easier for parents, the reform will help towards the Government's goal of encouraging public participation in the CTF scheme.

Costs (Option B)

9. For parents:

- There should be no new costs to parents arising from the announced changes.

10. For providers:

- The frequency of transcription errors in application forms could increase if more applications were registered without a voucher. Also, since providers will not be able to see the expiry date on the vouchers, there will be an increased possibility that parents erroneously attempt to open accounts with vouchers that have expired.

These errors impact on providers, because when they are detected by HMRC it is down to the provider to follow up with the parents and check the information. Typically, for providers who change from a system of scanning vouchers to manually inputting the child's data, the current reported error rate is between 1% and 5%.

- Based on an error rate within this range, we estimate the cost to providers in the long-run should be negligible, particularly if error rates improve over time. However, the policy change will also give rise to transitional costs for providers that opt to open accounts without a voucher and thereby adopt manual procedures. These costs will include changes to IT and staffing associated with the manual inputting of account information, estimated in aggregate at around £1.5m. This is informed by the views expressed by current CTF providers, who have suggested their costs from such a change could range up to £200,000 per provider (evidence from consultation with providers indicates that 11 providers currently scan vouchers, and we assume that to varying degrees these providers will move to a manual process to accommodate voucherless account opening).
- For providers who currently do not scan, there should be no significant increase in the number of reported errors, but when an error does arise it may cost more to correct it given they would not be able to just cross-check with the voucher but would have to contact the parents. We estimate the total additional cost for providers within this category will be negligible in steady-state.

11. For Government:

- There may be a small increase in costs for HMRC if there is a higher error rate arising from parents making transcription errors, which HMRC would then have to detect and signal to the providers.
- Different account-opening processes may lead to a greater number of public enquiries made to HMRC, placing a larger administrative burden on HMRC. Again though, this cost is small.
- The cost of amending HMRC's IT systems and updating literature would be absorbed within the current departmental budget.

12. Total annual average costs across all affected parties are therefore estimated to be negligible, while 'one-off' costs are estimated at around £1.5m, assumed to build up over a period of 5 years.

Small Firms Impact Test (Option B)

13. The announced policy provides for optional changes by providers to their account opening processes regardless of size.

14. Costs would be incurred by businesses because they may have to employ more staff, to deal with the numbers of registrations to be filled in manually. However, these costs would only be relevant to providers who currently use a microline system to scan vouchers. Most small providers do not scan the microline on the voucher and already input the information on a CTF voucher manually.

15. Overall, therefore, following no evidence to the contrary from the consultation stage, we believe that this change will not have any significant impact on small firms. Where a small firm does choose to make the change, HMRC will work closely with them to help them with the process.

Competition Assessment (Option B)

16. The announced policy change should prompt more providers to open accounts without requiring parents to necessarily send in their voucher. As such, it may help reinforce the trend toward greater online and phone account opening. However, any effect from the policy will be small and accordingly it is not expected to materially alter competition in the market for CTF accounts.

Enforcement, Sanctions and Monitoring (Option B)

17. CTF business processes have been designed to minimise compliance risks. The customer opening the CTF account for the child needs to provide the child's unique reference number and date of birth to the provider in order to open a CTF account. URNs are only issued to children in respect of whom a child benefit claim is made and a CTF voucher awarded. When the fortnightly list of registered accounts is sent in to the CTF Office by providers, the HMRC system automatically flags up any discrepancies between the URN and the child's other information, and the account is not opened. The business processes also minimise the need for rework on the part of providers, as no Government payment is made into a CTF account until the data matches.

Specific Impact Tests

Sustainable Development

18. This change is not expected to have any significant impact on sustainable development.

Carbon Assessment & Other Environment

19. This change is not expected to have any significant environmental impacts

Health Impact Assessment

20. This change is not expected to have any significant health impacts.

Race, Disability, Gender and Human Rights

21. This change is not expected to have any significant impact on race, disability, gender or Human Rights issues.

Rural Proofing

22. It is not expected that there will be any significant difference to the impact of the change in rural areas.

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	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No

Annexes

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