

Changes to the Child Trust Fund scheme: impacts on providers

The Government announced on 24 May 2010 that government payments to Child Trust Fund (CTF) accounts would reduce from August 2010, and then stop from January 2011.

The Government considered whether a full impact assessment should be developed in connection with this announcement. As this is a spending measure an impact assessment is not required, although an initial assessment of the impacts on equality has been published. However, the Government recognises that there will also be an impact on CTF providers, and believes that it is important to ensure that these impacts are understood.

Following the announcement on 24 May, HM Revenue & Customs therefore contacted all CTF providers and their representative bodies and asked for their views about the likely scale of benefits and costs to their business of the proposed changes. Fifteen responses were received to this request.

Most of those who responded provided qualitative evidence of the likely range and scale of impact on their business. A few also provided quantified estimates. Given that providers were still assessing their likely response to the announcement many of the estimates were approximate.

Based on the information received, this document aims to present an initial estimate of the impacts across all CTF providers of the proposed changes.

For the purposes of this document:

“Small” providers are those with less than 10,000 CTF accounts

“Medium” providers are those with between 10,000 and 100,000 CTF accounts

“Large” providers are those with more than 100,000 CTF accounts.

Total estimated impacts

Table 1 presents a summary of the total impacts based on information from CTF providers, broken down according to the size of the providers.

Table 1: Summary of estimated impacts

Size of Provider	Number of providers in category	Average anticipated costs arising from policy change (£)	Total anticipated costs arising from policy change (£)	Average anticipated savings arising from policy change (£)	Total anticipated savings arising from policy change (£)
Large ¹	11	560,000	6,160,000	Negligible	Negligible
Medium	16	15,000	240,000	Negligible	Negligible
Small	52	10,000	520,000	Negligible	Negligible
Totals	79	N/A	6,920,000	N/A	Negligible

¹ The costs for large provider include the cost of developing alternative savings products after eligibility for CTFs ends.

General comments on the proposals

In addition to quantitative information used to produce the estimates above, a number of general comments on the impacts of the proposals were made. These are set out below in Table 2. Respondents are not identified but the size of the provider commenting is shown.

Table 2: Cost and Comments

Size	Costs	Comments on Administrative Burdens and Costs
Small	Sunk costs from CTF introduction: <ul style="list-style-type: none"> • Application forms – design and print (approx £1,000) • Advertising - £900 + VAT • Software development - £1,500 	<ul style="list-style-type: none"> • Increased staff time spent explaining situation to customers
Small	<ul style="list-style-type: none"> • £1,000 set-up costs (recent) 	<ul style="list-style-type: none"> • Not specified
Small	<ul style="list-style-type: none"> • No additional costs 	<ul style="list-style-type: none"> • Not specified
Small	<ul style="list-style-type: none"> • £50 vouchers: transaction costs rise from 1% to 5% (but no absolute change?) • Scheme ending will leave ongoing gap of £25k per annum • Reduction in funding base £500k over 5 years. Increased costs to develop new products 	<ul style="list-style-type: none"> • Low margins so require high volumes to be profitable - hurt by loss of CTF volume
Small	<ul style="list-style-type: none"> • No cost savings from existing account admin 	<ul style="list-style-type: none"> • Not specified
Small	<ul style="list-style-type: none"> • Not specified 	<ul style="list-style-type: none"> • Reduced costs of administration if no longer dealing with CTF accounts

Small	<ul style="list-style-type: none"> • Not specified 	<ul style="list-style-type: none"> • Small cost saving in not having to operate a fortnightly return process • IT investment not recouped • Higher marketing costs, new literature
Medium	<ul style="list-style-type: none"> • Not specified 	<ul style="list-style-type: none"> • Cost savings from 2012 – printing, stationery, postage
Medium	<ul style="list-style-type: none"> • Not specified 	<ul style="list-style-type: none"> • £50 voucher not viable
Large	Not specified	<ul style="list-style-type: none"> • Small costs – literature (customer advice), adherence to HMRC guidelines, ongoing returns via “Gateway”, training of staff
Large	<ul style="list-style-type: none"> • £1m capital costs to set up alternative children’s products • “material” admin costs from £50 vouchers • £14m reduction long-run profits from removal age 7 payments • Nil savings 	<ul style="list-style-type: none"> • Short time period to build CTF replacement
Large	<ul style="list-style-type: none"> • Not specified 	<ul style="list-style-type: none"> • Need to “reillustrate” for existing plans to account for loss of age 7 payments • Will need to amend systems, train staff
Large	<ul style="list-style-type: none"> • No savings 	<ul style="list-style-type: none"> • Reduced income from ending age 7 payments • Costs to amend system
Large	<ul style="list-style-type: none"> • £1.1m-£1.3m cost of redeveloping systems, websites, literature suite 	<ul style="list-style-type: none"> • Expect to lose “seven-figure sum” from managing “£50” accounts over 18 years
N/A (trade assoc.)	<ul style="list-style-type: none"> • £28k literature cost for interim period (Aug-Jan) 	<ul style="list-style-type: none"> • Very short time period to change info/literature • “ Reducing the value of vouchers leads to costs that in some cases will be repeated when eligibility ends • Unspecified and “unquantified” IT development work

Conclusion

The estimates given by these providers indicate that the impact of stopping government payments to CTF varies depending upon the size of the provider and also across providers of similar size. But averaging the responses across provider size gives an indicative combined cost of £6.9 million to CTF providers, with negligible savings from not having to comply with CTF regulations and administrative burdens.

Since this exercise was carried out, the Government has published draft Regulations that would aim to reduce the burdens on CTF providers, by:

- Relaxing the requirement to issue annual statements to all account holders, by allowing providers not to issue annual statements to accounts that either have not received any contributions in the previous year, or that are valued at less than £300; and
- Allowing providers to choose not to accept new CTF accounts, while still retaining their existing CTF accounts.

These draft Regulations are annexed to this document.

HM Revenue & Customs, September 2010

Annex: draft Regulations that would aim to reduce the burdens on CTF providers, as circulated for comment to CTF providers on 9 September 2010.

2010 No.

CHILD TRUST FUNDS

The Child Trust Funds (Amendment No. 4) Regulations 2010

<i>Made</i> - - - -	<i>2010</i>
<i>Laid before Parliament</i>	<i>2010</i>
<i>Coming into force</i> - -	<i>2010</i>

The Treasury make the following Regulations in exercise of the powers conferred by sections 3 and 28(1) to (3) of the Child Trust Funds Act 2004⁽²⁾:

Citation, commencement and effect

1. These Regulations may be cited as the Child Trust Funds (Amendment No. 4) Regulations 2010 and shall come into force on [2010].

Amendments to the Child Trust Funds Regulations 2004

2. The Child Trust Funds Regulations 2004⁽³⁾ are amended as follows.

3.—(1) Regulation 10⁽⁴⁾ (statements for an account) is amended as follows.

(2) In paragraph (2) for “in the case of an annual statement” substitute “, except in a case mentioned in paragraph (1)(b),”.

(3) At the end add—

“(6) For any account where, at a statement date—

(a) the aggregate market value of the account investments held under the account is less than £300; or

(b) no subscriptions under regulation 9 have been made to the account, between the previous statement date for the account (whether or not a statement was then issued) and the current statement date;]

the requirement in paragraphs (1) and (2)(b) to issue a statement annually shall be modified by substituting a requirement to issue a statement in relation to the child’s fourth, tenth and sixteenth birthdays, unless any potential recipient of the statement (see paragraph (3)) requests an annual statement.”

4.—(1) Regulation 14 (account provider – qualifications and Board’s approval) is amended as follows.

(2) At the end add—

⁽²⁾
⁽³⁾
⁽⁴⁾

“(5) Where an undertaking has been given under paragraph (2)(b)(ii) or (ia), the account provider may give the Board 30 days’ notice of its intention to replace that undertaking with one under which the account provider agrees not to accept vouchers, or open accounts, from the date the notice expires.”

Name

Name

[date]

Two of the Lords Commissioners of Her Majesty’s Treasury