Summary: Intervention & Options

Department /Agency:	Title:	
HMRC	Impact Assessment of changing the requirement to hand in a Child Trust Fund voucher in order to open an account	
Stage: Consultation	**Version:** 1	**Date: 1 October 2007**
Related Publications:		

Available to view or download at:

http://www.

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

1) 75 % of parents have actively opened their child's Child Trust Fund (CTF) account, while the remainder of accounts are opened by HMRC. This Impact Assessment examines a reform aimed at increasing the take-up of the CTF: namely, removing the requirement that the CTF voucher is physically given to the provider in order to open the account. This idea was a 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?

2) The intended effect of this reform is to encourage an even higher number of parents to actively open their child's CTF, by making the account-opening process as simple as possible. This objective is balanced against the concern that the manual transcription of a child's details (as opposed to scanning the voucher's microline) is more susceptible to error, and against the costs to both HMRC and to providers of making the change.

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

3) Option A is to make it mandatory for providers to open accounts without receiving the voucher from parents. Option B is simply to remove the legal requirement that the voucher must be seen to open an account, but to make the transition to a voucherless account-opening system optional for providers. This option provides less clarity for customers about the process, but it may also be less demanding for providers. Option C is to leave the account-opening system as it is.

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

4) Any 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 SELECT STAGE Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

....Date:

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	Option A: the costs of a system change for providers who currently scan - £100,000 one-off cost per provider = £1.2m total cost; ongoing costs of new account-opening system and increased error rates = £70,000 p.a. (all providers combined). Options B and C, costs are either optional or negligible.
£ 1.2m	1	
Average Annual Cost (excluding one-off)		
£ 70,000		**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'
One-off	**Yrs**	No monetised benefits identified.
£		
Average Annual Benefit (excluding one-off)		
£		**Total Benefit** (PV) **£**

Other **key non-monetised benefits** by 'main affected groups' For providers and Government - Option A: an increase in account take-up rates from 75% to 78-79%.

Option B: an increase in account take-up rates, although probably less than in Option A.

Key Assumptions/Sensitivities/Risks All of our estimates are based on very limited data; we invite comments on these estimates and we would welcome the estimates and data sets of providers on these issues.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) **£**	**NET BENEFIT** (NPV Best estimate) **£**

What is the geographic coverage of the policy/option?			Nationwide	
On what date will the policy be implemented?			Undecided	
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 £	Decrease of £	**Net Impact**	**£** Negligible

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

Evidence Base (for summary sheets)

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. A payment of the same amounts 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, 75% 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 examines an option currently being considered for improving the take-up of the Child Trust Fund: namely, removing the requirement that the CTF voucher is physically given to the provider in order to open the 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 will look at whether it is feasible for providers to switch to a process whereby they open accounts without the requirement to receive the voucher. There are 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 make the transition to a voucherless account-opening system optional for providers.
   - Option C – to leave the account-opening system as it is.

Sectors and Groups Affected

4. 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 46 providers)
   - CTF distributors (currently 75 distributors) and
   - Her Majesty's Revenue and Customs (HMRC).

Costs and Benefits

N.B. Please note that all our quantitative estimates are based on limited data. They may not be representative, but are our best estimates based on the data we have and are included to invite comment. Please respond with your own estimates and data for comparison.

Benefits (Option A)

5. For parents:

- Opening an account by phone or on the internet with a provider who permits accounts to be opened without the voucher being sent would become a one-step rather than a two-step process, as parents would no longer have to follow up the application by separately sending the voucher in by post. This would make the process easier for parents. Similarly, parents would never receive reminders from providers for having forgotten to do so.
- If it is mandatory and all providers follow the same procedure, there is a clear and simple central message about how to open an account and what to do with a voucher.

6. For providers:

- Providers would 'lose' fewer accounts from parents failing to send in the voucher, and so providers would benefit from a projected increase in the account opening rate (as there would be an increased level of engagement from parents who have opened the account themselves). If the account-opening rate were to increase from 75% to around 78-79% (see below), providers could feasibly receive increased contributions in a further 1% of their accounts (based on current contribution levels).

7. For Government:

- Requiring providers to open CTF accounts without the voucher would mean that the number of accounts not opened because of the failure to send one in would reduce to zero. This would therefore deliver the greatest possible increase to take-up rates. Based on limited evidence, we estimate that around 4-5% of accounts currently registered are "lost" from not having the voucher sent in; if the voucher requirement were removed, this could be expected to lead to an increase in take-up rates from 75% to around 78-79%.
- By improving the CTF take-up rates, the reform would help towards the Government's goal of encouraging public participation in the CTF scheme.

Benefits (Option B)

8. For parents:

- Where the provider does offer voucherless account-opening, as for Option A, internet and phone applications would 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. Similarly, parents would not receive reminders from providers for having forgotten to do so.

9. For providers:

- Providers would have choice over how they register CTF accounts. This would allow providers who currently scan data from the microline on the CTF voucher to continue to do so, and would allow each provider to make their own cost benefit analysis of the advantages of moving to a different process.
- Providers would not have to make the transition to a new process at a timetable dictated by the Government. Instead, they would be able do so when they were in a position to realise the business benefits.
- If providers choose to make the transition, though, providers could 'lose' fewer accounts from parents failing to send in the voucher, and so providers would have the chance to benefit from an increase in the account-opening rate of up to 4% of all their accounts.

10. For Government:

- By increasing the CTF take-up rates (albeit probably less than in Option A), the reform would help towards the Government's goal of encouraging public participation

in the CTF scheme. We cannot make a quantitative estimate on this increase as we do not know how many providers would take up this opportunity.
- Because the Government would not have to announce a deadline by which all providers must have switched to the new system, the policy would be enabling and allow providers to implement the new systems as they are ready. This would save the Government from having to do checks on providers to ensure that they have implemented the change.

Benefits (Option C)

11. Option C entails neither new benefits nor new costs.

Costs (Option A)

12. For parents:
- Option A confers no specific costs on parents. It can probably be assumed that parents would be happy to see the number of steps in the account-opening process reduced.

13. For providers:
- The frequency of transcription errors in application forms could increase if all applications were registered without a voucher. Also, since providers would not be able to see the expiry date on the vouchers, there would be an increased possibility that parents 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. We have limited data thus far, but an initial estimate is that error rates when vouchers are not scanned increase by about 0.15%. This error rate increase would demand extra staff costs (to rectify the errors) – this contributes to our estimates of total extra staff costs, for all the CTF providers who currently scan combined, of £70,000 per year.
- A significant number of CTF providers scan the voucher in order to input the data, which includes the child’s unique reference number and date of birth. A mandatory change of the account-opening procedures would require them to dispense with microline scanning systems, and perhaps to introduce new IT systems and hire new staff to deal with the manual registration of applications. We have estimated that this would involve a one-off cost for each provider who currently scans vouchers of up to £100,000, and it again contributes to the estimates of extra staff costs, for all the CTF providers who currently scan combined, of £70,000 per year.

For Government:
- There may be an increase in costs for HMRC if there is a higher error rate arising from parents making transcription errors and from providers opening expired accounts, which HMRC would then have to detect and signal to the providers.
- Option A risks higher rates of transcription error than Option B. Under Option A, more providers would make the transition to manual inputting of the child’s details into their systems. Providers may be obliged to make the change before they had been able to commit the resources that they might have wished to it. HMRC would likely face a greater cost in working with providers to rectify these errors.
- A mandatory requirement that all providers open accounts without receipt of the voucher would require further checks of CTF providers to ensure that the policy was in place.

Costs (Option B)

14. For parents:

- A variation between providers about whether it is necessary to send in the voucher to open the account may lead to a certain lack of clarity about the account-opening process.

15. For providers:

- The frequency of transcription errors in application forms could increase if more applications were registered without a voucher. Also, since providers would not be able to see the expiry date on the vouchers, there would be an increased possibility that parents 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. An initial estimate is that for providers who change from a system of scanning vouchers to manually inputting the child's data, the error rate increase would be around 0.15%. We do not know the overall costs of this error rate increase as we do not know how many providers would make the transition from a scanning account-opening system to a voucherless one.
- However, if the transition was voluntary, we can assume that this increase would be less than in Option A, as providers would only start registering URNs manually when they were ready to devote resources to the necessary checks during the registration of details.

16. For Government:

- There may be an 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. Again, if the transition was optional, we can assume that this increase would likely be less than in Option A.
- Different account-opening processes may lead to a greater number of public enquiries made to Government, placing a larger administrative burden on HMRC.

Costs (Option C)

17. Option C entails neither new benefits, nor new costs.

<u>Small Firms Impact Test (Options A and B)</u>

18. All CTF providers would be affected by Option A, while Option B would impact only on those who chose to comply. Some providers fit the definition of a small firm.

19. 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. Whether the ones that did would have to incur these costs is, of course, dependent on whether the transition was compulsory (Option A) or voluntary (Option B).

20. Overall, therefore, we believe that this proposal will not have any significant effects on small firms.

21. Small firms have the opportunity to respond to this document, and their views would be welcomed.

<u>Competition Assessment (Options A and B)</u>

22. We believe that this proposal will not have significant competition effects. Option B may increase competition in the CTF market, where providers would be able to further differentiate their product as compared with providers who continue to require the CTF voucher to be sent.

23. Option A would cause some additional costs to firms who have previously built their systems based upon scanning the microline on the Child Trust Fund voucher. We are seeking views in order to help quantify this cost as part of the attached consultation document.

Enforcement, Sanctions and Monitoring (Options A and B)

24. 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: 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	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Annexes

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