HM Treasury

Treasury Minutes

Government Response to the Committee of Public Accounts on the Sixty-first to the Sixty-seventh reports from Session 2022-23

CP 941

September 2023

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Presented to Parliament
by the Exchequer Secretary to the Treasury
by Command of His Majesty

September 2023

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Sixty-seventh report of Session 2022-23

HM Revenue & Customs

Child Trust Funds

Introduction from the Committee

Child Trust Funds are tax-free savings accounts that were set up for all children in the UK who were born between 1 September 2002 and 2 January 2011. Anyone, for example parents or other family members, can add to children's savings by paying money into their accounts. Young people can choose to take over managing their account at 16 years old and can access the funds at 18 years old. The first young adults with Child Trust Funds reached the age of 18 in September 2020. In April 2021, the total value of all Child Trust Funds was £10.5 billion, and the average account value was £1,911.

Government launched the Child Trust Fund scheme in 2005, backdating it to include children born since September 2002, and announced its closure to new entrants in 2010. Around 6.3 million accounts were set up, into which government paid £2.0 billion. 72% of accounts were set up by parents and guardians using a voucher sent to them by HM Revenue & Customs (HMRC). HMRC set up the remaining 28% of accounts on children's behalf when their parents or guardians did not do so within a year of the voucher being sent.

HMRC is responsible for the administration of Child Trust Funds. It published an interim evaluation of the scheme in 2011. Other organisations are responsible for savings and assets policy or are involved in ensuring access to the scheme for specific groups of young people. In 2017, HMRC and the Department for Education transferred responsibility for managing Child Trust Funds belonging to children in local authority care with no 'responsible adult' to a charity called The Share Foundation.

Based on a report by the National Audit Office, the Committee took evidence on Thursday 18 May 2023 from HM Revenue and Customs. The Committee published its report on 26 July 2023. This is the government's response to the Committee's report.

Relevant reports

- NAO report: Investigation into Child Trust Funds – Session 2022-23 (HC 1197)
- PAC report: Child Trust Funds – Session 2022-23 (HC 1231)

Government response to the Committee

1. PAC conclusion: The Child Trust Fund scheme is not reaching many of the people it was designed to help.

1. PAC recommendation: HMRC should do more to find and contact young people who have not claimed their Child Trust Funds, to ensure they are aware they have an account and know how to access their money.

HMRC should:

- ***Give more support to providers to help them trace account holders.***
- ***Work with other departments that might also have ways to raise awareness of Child Trust Funds among young people, for example, the Department for Education.***

1.1 The government agrees with the Committee's recommendation.

Recommendation implemented

1.2 Although primary responsibility sits with Child Trust Fund (CTF) providers, His Majesty's Revenue & Customs (HMRC) has processes in place to find and contact young people who have not claimed their matured CTFs. In June 2023 HMRC published information on CTFs up to April 2022, including new tables showing the cumulative number of matured accounts. These indicate that as of 5 April 2022 around 428,000 matured CTF accounts had not been claimed, and approximately 338,000 had been claimed or were transferred to an ISA.

1.3 HMRC engages actively with external partners with the ability to interact with the CTF demographic group to raise awareness and provide further information. This includes family and friends, other government departments and partner organisations (such as the Money and Pensions Service), youth-focused charities, schools, banks, and other providers. As detailed below this is underpinned by a dedicated CTF working group, bi and multi-lateral engagement with key departments and a communications plan.

1.4 HMRC actively participates in meetings of the dedicated CTF working group. This comprises trade bodies and CTF providers and is scheduled to meet in September. The need to trace, and engage with, account holders is an established feature of discussions.

1.5 Quarterly meetings take place between HMRC, the Department for Education (DFE) and The Share Foundation – the charity appointed by DFE to manage CTFs and Junior ISAs of looked after children. A meeting took place in August and the next is provisionally scheduled for late Autumn 2023. Those meetings provide the opportunity to explore whether financial education can embrace awareness of CTF. HMRC also works closely with the Ministry of Justice (MoJ) as MoJ refines its approach to mental capacity and is working with MoJ and the Department for Work and Pensions on ways to raise awareness of CTFs with the parents of young adults without mental capacity.

1.6 HMRC has also developed a detailed communications plan which targets young people in two groups. Group 1 (18+) focuses on raising awareness of the matured CTFs waiting to be claimed and aims to reduce the number of unclaimed accounts. This includes ongoing work with the University and Colleges Admissions Service to encourage awareness among student peer groups. Group 2 (15-17) focuses on accounts which are due to mature in the next two years, to ensure that the number of unclaimed CTFs doesn't rise.

1.7 HMRC has reviewed its current strategies for raising awareness of, and ability to trace, CTFs. While HMRC is confident that its activities are sufficient and proportionate HMRC will explore with its partners further ways in which the government can aid young people and their parents in tracing their accounts for adoption in 2024-25.

2. PAC conclusion: providers are charging fees for passively managing many Child Trust Funds and some could do more to connect young adults with their accounts.

2. PAC recommendation: HMRC should work in partnership with other parts of government to ensure that all providers are incentivised to establish contact with all young people whose Child Trust Funds they manage, and so that they earn fair fees, proportionate to their level of activity.

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 Child Trust Fund (CTF) providers have the lead responsibility in making sure account holders are aware of and have access to their accounts.

2.3 HMRC is an active participant in the dedicated CTF working group which comprises trade bodies such as The Investing and Saving Alliance and UK Finance, and CTF providers such as OneFamily and Nationwide Building Society.

2.4 As set out above, the need for CTF providers to trace, and engage with, account holders is an established feature of discussions. HMRC will continue to use these meetings to encourage further activity on the part of CTF providers, who are aware of their responsibilities to their customers under Financial Conduct Authority (FCA) rules. While terms and conditions are a matter for the industry, the new FCA consumer duty rules require firms to act to deliver good outcomes for retail customers and provide products and services which offer fair value.

2.5 HMRC also acts on any intelligence it receives from FCA or others regarding compliance problems with CTFs.

3. PAC conclusion: The Child Trust Fund scheme is not easily accessible for the families and carers of children and young people lacking mental capacity.

3a. PAC recommendation: In its Treasury Minute response, the government should set out what steps different bodies, including the Ministry of Justice and its equivalents in the home nations, are taking to help the families of young people who lack mental capacity to access their Child Trust Funds without excessive bureaucracy and cost.

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 Supporting families of young people who lack the mental capacity to access funds in their matured Child Trust Fund (CTF) involves a number of government departments across the United Kingdom. While the government believes needs are best met, in the main, through the relevant responsible department overseeing a specific area, effective cross government engagement is key to supporting families. Although the MoJ and devolved administrations have responsibility for the government's approach to mental capacity, HMRC has responsibility for legislation surrounding Child Trust Funds (CTF) to include specific reference to mental capacity and provided links to the relevant bodies in England and Wales, Scotland and Northern Ireland: what-happens-when-your-child-is-18. HMRC is also working with MoJ and Department for Work and Pensions (DWP) to explore ways in which the parents of children without capacity are informed, including adapting existing DWP communications.

England and Wales

3.3 Once the MoJ became aware that some families of young people who lacked mental capacity were struggling to access their funds, MoJ took immediate action. On 1 December 2020, MoJ announced that parents or guardians of young adults without mental capacity could ask for a court fee waiver when seeking access to a mature CTF.

3.4 In November 2021, the MoJ consulted on a Small Payments Scheme as a potential mechanism for accessing a range of smaller value accounts. Responses indicated that the proposal would not allow easy and quick access. Rather, the best solution would be to improve the existing system.

3.5 Following a successful pilot in 2022, the application process for the Court of Protection (CoP) has undergone significant work to streamline and digitise it, reducing application processing times from 26 to 8 weeks. 95 percent of property and affairs applications are now made by an online process rather than on paper. A sample of a completed application form for a mature CTF has been placed on Gov.uk to assist parents and carers making an application.

3.6 A significant barrier to access is a lack of awareness of the Mental Capacity Act 2005 (MCA) and how and when to access funds. To directly address this MoJ launched an awareness raising programme, the first part of which was a new toolkit: Making Financial Decisions for young people: parent and carer toolkit (9 June 2023). The toolkit raises awareness of the MCA to help families of young people understand their rights and what they need to do in order to manage the finances of the young person without capacity and outlines the Court of Protection process.

3.7 The MoJ is working with The Investment and Savings Alliance (TISA) to promote the toolkit with parents and carers and investigating how information on the MCA can be made available in correspondence sent out by CTF providers in advance of the account maturing, to ensure parents and carers are able to engage in the legal processes as early as possible.

3.8 The MoJ is also working with the DWP to raise awareness of CTF through signposting on its website and through its communications with affected parents/ guardians. This work is at an early stage but is being actively pursued. In addition, MoJ is working with stakeholders in both the disability and finance sectors to raise awareness of the MCA and ensure that materials are available to support individuals to navigate the legislation.

Scotland

3.9 In Scotland the ability to access a matured CTF of an adult lacking capacity is dependent on whether the account is cash or stocks and shares based.

3.10 Where the matured CTF is a cash account, the Access to Funds (ATF) procedure provides a simple way of accessing the funds. This involves an application to the Office of the Public Guardian (Scotland) rather than the courts. In February 2021, the Scottish Government agreed with the Public Guardian that the £91 fee for an ATF application would be waived where the application was to access funds in a CTF. This was publicised online and announced on the Public Guardian's news page.

3.11 Where the matured CTF is a stocks and shares account, an application to the Sheriff Court for an intervention order or a guardianship order is required. Generally, a solicitor is involved in making such an application. Where the young person is eligible for legal aid, no court or OPG registration fees are payable however, means testing for legal aid is dependent on the type of order being sought. In the vast majority of situations in Scotland the legal aid system enables an adult with little capital (including funds in a matured CTF) to access those funds.

Northern Ireland

3.12 Currently, where a person wishes to manage the financial and property affairs of an adult who lacks mental capacity, and no Enduring Power of Attorney has been registered, they must apply to the High Court to become a Controller. Where the Court has received medical evidence confirming the individual's incapacity and is satisfied that there is a need to appoint a Controller, it will make an order appointing a person as Controller, giving them legal authority to manage financial affairs on behalf of the patient in accordance with the Court's instructions. Alternatively, the Court may decide to make a 'short procedure order', rather than appointing a Controller, usually where the value of the individual's assets or income is relatively low. The relevant court fees for the application, and on the granting of an order, are prescribed in legislation. Depending on the patient's circumstances, an application for remission may be granted on the grounds of hardship.

3.13 The Department of Justice (Northern Ireland) is aware of the issues around access to mature CTFs by parents/ carers of young people lacking mental capacity and is aware of the concerns raised in England and Wales. The matter has also been raised with the Department by the Master (Care and Protection), who hears applications for court orders concerning the financial and property affairs of a person lacking capacity. The Department has been following the MoJ consultation and its outcome and intends to prepare a paper on the current position in Northern Ireland to inform consideration by autumn 2023 of whether any changes may be required.

3b. PAC recommendation: the government should include in the response statistics on how many people have used, successfully or otherwise, the current options available in each nation and set out the impact of the specific steps the government has taken so far to help these families, such as fee waivers.

3.14 The government agrees with the Committee's recommendation.

Recommendation implemented

England and Wales

3.15 The Mental Capacity Act provides for the jurisdiction of the Court of Protection (CoP) where a child under 16 is likely to continue to lack capacity when they reach 18. In these cases, the court can make decisions even though the child is under the age of 16 at the time of the application. This means that parents do not have to wait until their child reaches 18 before making an application and ensures that they can receive the necessary permissions well before the CTF matures.

3.16 The figure of 15 applications to the COP in 2021 (quoted in the Committee's report) relates to the number of cases where the Child Trust Fund was quoted as being the sole asset. This is not an accurate reflection of total court applications as many applications for the age group 16-21 year-olds made in the years July 2020 – March 2023 would have involved other assets, for example, damages awards, in addition to the CTF.

3.17 A more complete reflection for the period July 2020 – March 2023 for the age group 16–21-year-olds is illustrated in the table below, where those aged 16 years are young people whose CTF had not yet matured, and 19-21 years is the age of the account holder who had not yet accessed their matured CTF.

Number of Court of Protection applications for age group			
Year	July 2020 - August 2021 (Age 16-19)	September 2021 - August 2022 (Age 16-20)	September 2022 - March 2023 (Aged 16-21)
Number of applications	86	379	312

3.18 Where the application was made in the years 2020 - 2023 for a young person aged 16, the requisite court order would be received a full two years before the CTF matured, allowing parents to instruct on and access the CTF as soon as possible upon maturity. The figures in the above table are a subset of Family Court Statistics published by the MoJ.

Scotland

3.19 The Office of the Public Guardian (Scotland) advises that, to August 2023, 21 notes of interest relating to matured CTFs have been received and assistance and guidance has been provided where needed. There have been no applications to use the ATF scheme to access funds in a matured cash CTF. Any cases which have arisen have been either intervention orders or guardianships but data on the numbers involved is not collected centrally.

Northern Ireland

3.20 Since 1 September 2020, when the first CFT holders turned 18 years, the Office of Care and Protection (part of the High Court) in Northern Ireland has received 6 applications where the only asset required to be managed is a CTF. These have been dealt with by the making of a Short Procedure Order. Remission from court fees was available in 4 of these cases. There will be cases where an application has been made for a court order because the patient has assets additional to a CFT and/or is in receipt of Direct Payments but these would be harder to identify.

4. PAC conclusion: The objectives of the Child Trust Fund policy have not been achieved, but there is still time for HMRC to act.

4a. PAC recommendation: HMRC should act immediately to ensure that the most is made from the Child Trust Fund scheme. In its Treasury Minute response, it should set out how it will work with other government departments, including DfE, the MoJ and HMT, and other organisations to plan and implement activity which addresses all four of the Child Trust Fund policy's objectives

4.1 The government disagrees with the Committee's recommendation.

4.2 As set out above, the government remains committed to ensuring all children and families with a matured CTF can access it and will continue to support activity to address the barriers highlighted in the committee's report for certain groups by working collaboratively across government.

4.3 However, the government believes that the existing policy framework of supporting and encouraging people of all incomes and at all stages of life to save is the right one and addresses the recommendation. The Help to Save scheme is intended to promote financial resilience among working households on low incomes by encouraging a regular, long-term savings habit and building a financial buffer to help people to plan and prepare for the future. The Junior ISA allows parents and family to save for a child's future in a tax-free environment while the introduction of the Lifetime ISA supports those saving for a first home or later life. Savers also benefit from the Starting Rate for Savings of up to £5,000, the Personal Savings Allowance of up to £1,000 and the annual ISA allowance of £20,000. As a result of current savings tax reliefs, 95% of individuals with savings income outside of an ISA in 2020-21 did not pay tax on said income.

4.4 The government recognises that economic and financial education are important parts of a broad and balanced curriculum which provides the essential knowledge to ensure that young people are prepared to manage money well and make sound financial decisions. Pupils currently receive financial education through the maths and citizenship elements of the National Curriculum, which is compulsory in maintained schools. While Academies and free schools have greater freedom and autonomy in how they operate in areas such as the curriculum, they are expected to teach a curriculum that is comparable in breadth and ambition to the National Curriculum, and many choose to teach the full National Curriculum to achieve this.

4.5 In 2021, MAPS published financial education guidance documents for primary and secondary schools in England. That guidance encourages conversations about money in the classroom by setting out ten steps schools can take to boost the delivery of financial education throughout a child's school career.

4.6 HMRC also supports the work being undertaken by Industry bodies such as The Investing and Savings Alliance (TISA) to address gaps in the personal finance knowledge of young adults in the workplace through training courses such as 'The Essentials of Money Management', which aims to help firms support their staff to make informed financial decisions.

4b. PAC recommendation: make an assessment of whether similar issues are likely to affect other tax-free savings accounts the government is currently planning, promoting, and/or making contributions towards, such as lifetime ISAs and Junior ISAs for children in care. The government should work with other stakeholders to adapt how it implements these schemes to help protect the long-term benefits and enable better management over the full lifetime of such schemes.

4.7 The government agrees with the Committee's recommendation.

Recommendation implemented

4.8 HMRC undertakes on-going evaluation of the operational aspects of the CTF scheme based on provider and user comment and research. This information informs changes to both existing and prospective savings schemes. For example, amendments to the CTF legislation is reflected in the Junior ISA and ISA legislation and vice versa.

4.9 The technology landscape has changed significantly for HMRC and the financial services industry since the CTF scheme was developed in 2004, and what was an appropriate operating model then would be unlikely to be employed now. For example, the Lifetime ISA (LISA) which was introduced in 2017 is a digital system which requires monthly on-line reporting by ISA managers and the mandatory use of national insurance numbers. The Help to Save Scheme uses DWP data to confirm eligibility and its use of the government gateway to create account ensures HMRC has email addresses for participants in the scheme. In contrast, the CTF scheme employed paper vouchers for account opening and is dependent on parents informing HMRC and account providers of changes in their personal details, making it challenging to contact account holders.

4.10 In the context of looked after children, quarterly meetings take place between HMRC, the DFE and The Share Foundation (TSF). A meeting took place in August and the next meeting is provisionally scheduled for late Autumn. Those meetings provide the opportunity to explore any obstacles (whether operational or legislative) to TSF's effective management of the CTFs and Junior ISAs of looked after children. The Share Foundation reports quarterly and annually on its performance and those of local authorities, The regular meetings also provide the opportunity to monitor TFS's performance, which will subsequently inform any amendments to the commercial contract.

5. PAC conclusion: HMRC does not collect the data from providers needed to plan timely action to improve young people's engagement with their accounts and assess whether its actions are working.

5a. PAC recommendation: HMRC should improve the timeliness of its data collection and statistical releases, to present a more accurate and up-to-date assessment of the scheme.

5.1 The government agrees with the Committee's recommendation.

Target Implementation date: Summer 2024

5.2 HMRC is exploring opportunities for publishing more timely information on CTFs. HMRC has reminded providers of the requirement to make returns within 60 days of the end of the tax year. HMRC is also improving its analytical processes to reduce lead times. HMRC anticipates that future statistical information up to tax year 2023 to 2024 will be published by tax year in the Summer of 2024.

5.3 Since the Committee hearing, HMRC has published more recent information on CTFs up to April 2022 in June 2023, including new tables showing the cumulative number of matured accounts. Prior to the publication, HMRC was aware that some Child Trust Fund providers had not completed the requisite annual return. HMRC identified and reminded providers of the outstanding returns and these are included in the latest published statistics. The issue of missing returns was addressed in paragraph 3.3 of the Annual savings statistics: background quality report on Gov.UK.

5b. PAC recommendation: HMRC should use this improved understanding of the status of Child Trust Funds to target activity to improve young people's awareness and management of their accounts

5.4 The government agrees with the Committee's recommendation.

Recommendation implemented

5.5 HMRC has reviewed its established strategy for raising awareness of, and ability to trace, CTFs and is confident that what HMRC is, and has been, doing to raise awareness among young adults is sufficient and proportionate. HMRC continues to explore new routes to reunite young people with their CTF and will use these if it deems necessary.

5.6 HMRC's current strategy will reunite the majority of accounts with their owners, but HMRC recognises there will be a small number of cases where further action may be required. HMRC will monitor how many accounts remain open and judge when it is appropriate to intervene. The vast majority of people will know where their account is, but HMRC will consider whether individuals should be contacted directly once it becomes clear they have lost contact.

6. PAC conclusion: HMRC is not planning to re-evaluate the scheme or learn lessons from its implementation that could help in the design or improvement of similar schemes.

6. PAC recommendation: HMRC should, at the appropriate time within the next 24 months, evaluate the scheme to understand what has been achieved from government's £2 billion investment and what impact it has had on the lives of young people and identify lessons that would benefit similar schemes in the future, particularly around how to design and implement a scheme that works well for vulnerable groups.

6.1 The government agrees with the Committee's recommendation.

Target Implementation date: Summer 2025

6.2 HMRC is committed to evaluation. The evaluation framework was published in 2021 and sets out HMRC's approach to achieving good quality monitoring and evaluations of its policies in line with government good practice. HMRC has committed to publishing its external research programmes in the HMRC annual report and accounts and has made the same commitment for evaluation. A list and brief description of HMRC's research reports, and the final research report, is available on GOV.UK. HMRC also publishes a list of HMRC planned evaluation publications.

6.3 Any evaluation plan, however, needs to be carefully considered and proportionate recognising that resources are limited. The CTF is an intervention that has been discontinued and is not currently part of the policy framework. While there are undoubtedly some lessons that can be learned, any evaluation plan will need to be mindful of this wider context. A more detailed plan for evaluation will be formalised in Winter 2023.

6.4 In addition, evaluation and similar analysis are not solely the purview of Government. HMRC also seeks to be open and pro-active in the way it manages its relationships with external stakeholders such as academics and external researchers, including those researching CTFs, and permits access to HMRC data via the HMRC Datalab.