National Audit Office

REPORT

Investigation into Child Trust Funds

HM Revenue & Customs

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Key facts

£2.0bn

paid by the government into Child Trust Funds (CTFs) between 2005-06 and 2011-12

6.3mn

CTF accounts opened for children born between 1 September 2002 and 2 January 2011 inclusive

£394mn

was, on 5 April 2021, yet to be claimed in matured CTFs belonging to young adults who reached the age of 18 between 1 September 2020 and 5 April 2021

175,000	number of 18-year-olds who had withdrawn or re-invested the funds from their matured CTF account by 5 April 2021
145,000	number of 18-year-olds who had not claimed their matured CTF account by 5 April 2021
37%	proportion of CTF accounts that, between 2005 and 2010, received payments from family, friends or other non-government sources
28%	proportion of accounts set up by HM Revenue & Customs (HMRC) on behalf of children because the parents or guardians did not do so
36%	proportion of children with CTFs who received an additional government payment for children from low-income families
55	number of CTF providers in 2023, compared with 74 in April 2011

What this investigation is about

1 Child Trust Funds (CTFs) are long-term tax-free savings accounts. They were set up for all eligible children living in the UK born between 1 September 2002 and 2 January 2011 inclusive, as part of the Child Trust Fund scheme.[1] The government introduced the scheme in 2005 and it is managed by HM Revenue & Customs (HMRC). The scheme's four policy objectives are:

- to help people understand the benefits of saving and investing;
- to encourage parents and children to develop the habit of saving and engage with financial institutions;
- to ensure that in future all children have a financial asset at the start of adult life; and
- to build on financial education to help people make better financial choices throughout their lives.

2 A child was eligible for a CTF if a person was entitled to Child Benefit in respect of that child or the child was in local authority care, the child had the right to live in the UK, and the child was not subject to immigration controls. HMRC approved a range of banks, building societies, credit unions, friendly societies, other mutual societies and equivalent organisations to provide CTFs.[2] HMRC sent a voucher to parents and guardians of each eligible child to set up an account with a CTF provider of their choice. HMRC set up CTFs for children whose vouchers were not used within one year of being issued. In 2010, the government closed the scheme to children born after 2 January 2011.

1 A small number of children living outside of the UK were also eligible, such as the children of Crown Servants and members of the Armed Forces serving abroad.

2 Mutual societies are financial services organisations that are owned and controlled by their members and usually aim to benefit members or the community. Friendly societies, building societies and credit unions are all examples of mutual societies.

3 The government paid funds into all CTFs, the amount varying based on children's circumstances. Family, friends or anyone can pay additional funds into a CTF until the child reaches the age of 18. At this point, the CTF matures, no further money can be invested in the account, and the account holder can withdraw the funds to spend or re-invest.

4 In 2018, a charity involved with CTFs raised concerns that many children with a CTF may have lost track of their accounts. There have been reports in the media that the carers of some young adults with learning disabilities have found it difficult to access those young adults' accounts. These issues suggested that a significant proportion of the government's investment in CTFs might not be claimed, potentially reducing the benefits of the scheme.

5 This report sets out the facts of the CTF scheme based primarily on a review of documents provided by, and interviews with, HMRC officials between November 2022 and February 2023. It does not examine and report on value for money, nor does it examine the Junior Individual Savings Account (ISA) scheme which replaced the CTF scheme in 2011.

Summary

Key findings

The Child Trust Fund Scheme from 2005 to 2012

6 **The government paid more than £2 billion into CTFs for 6.3 million children born between 1 September 2002 and 2 January 2011.** By April 2012, around 6.1 million CTF accounts had been set up through the scheme. The remaining 0.2 million accounts were set up after April 2012 for eligible children where there had been a delay opening an account. Most children received around £250 each from the government at the time their account was set up. Children from low-income families and children in care received an additional £250 from the government (around £500 in total). In some years, other groups of children received additional government payments on top of the initial payments, such as children receiving specific benefits. In total, 2.2 million (36%) children received additional government payments (paragraphs 2.2 and 2.5 to 2.7).

7 **HMRC set up 28% of CTF accounts on children's behalf because parents or guardians did not do so.** HMRC set up 1.7 million CTF accounts after parents did not do so within the required 12-month time period. Parents of children from low-income families were less likely to open accounts compared with higher-income families. Of the accounts set up by HMRC, just over half were for children from low-income families, despite 36% of all accounts belonging to such children (paragraphs 2.4 and 2.7).

8 **Children from low-income families were less likely to receive additional payments into their CTFs from family and friends than children from families with higher incomes.** Available data show that between the scheme beginning in 2005 and 2010, 37% of CTFs received additional funds into them from sources other than the government, mainly family and friends. In 2011-12, the first year after the scheme closed to children born after 2 January 2011, 11% of CTFs for children from low-income families received additional payments with an average payment of £202, compared with additional payments made into 27% of CTFs from higher-income families with an average payment of £342 (paragraph 2.8).

Oversight and management of Child Trust Funds

9 **HMRC statistical data on CTFs from April 2012 onwards are incomplete, as HMRC prioritised other activities during this period.** HMRC published annual statistics on the scheme covering the years that new-born children were eligible for CTFs. It paused publishing statistics when the scheme closed to children born after 2 January 2011. HMRC published the final annual statistical release from this period in 2013, based on data as at 5 April 2012. HMRC began to publish annual statistics on CTFs again in 2021 as the first children reached the age of 18, when their CTFs would mature. Its most recent published statistics, released in June 2022, presented the situation as at 5 April 2021, seven months after the first CTFs reached maturity and the first account holders could access their money. The data in this statistical release have known weaknesses (paragraphs 3.2 and 3.3).

10 **The number of CTF providers has reduced from 74 in April 2011 to 55 in February 2023.** Some providers have merged, while others have exited the CTF market, meaning some CTFs have changed providers. As at April 2021, 65% of CTFs were managed by friendly societies or other mutual societies, with banks and buildings societies managing 32% of CTFs. Between 2011 and 2021, the proportion of CTFs managed by friendly societies and other mutual societies increased. Over the same period, the proportion of CTFs managed by banks decreased. We estimate that providers could be earning collectively up to £100 million per year through charges on CTF accounts (paragraphs 3.6 to 3.8).

11 **HMRC assesses that there is a low risk that CTF providers do not comply with CTF regulations, and therefore does not undertake routine compliance reviews.** CTF providers are regulated by the Financial Conduct Authority. HMRC told us that it operates a risk-based approach to compliance, which it reviews annually. It told us that it reviews annual returns from providers and will act on any intelligence it receives, but it does not actively monitor compliance through planned reviews of providers. HMRC has the option to inspect a provider if concerns are raised (paragraphs 1.2 and 3.4).

Current understanding of the Child Trust Fund scheme

12 **By April 2021, around 175,000 out of 320,000 18-year-olds had claimed and either withdrawn or re-invested a total of £376 million from their matured CTFs, but a further £394 million remained in unclaimed matured accounts.** By April 2021, around 320,000 CTFs had matured in the seven months since the first CTF account holders reached the age of 18 in September 2020. Of these, 175,000 (55%) had been claimed by the account holders and the accounts closed, and 145,000 remained unclaimed. More recently, the Investing and Saving Alliance estimated that, by August 2022, the proportion of CTFs that had matured at least one year earlier and which remained unclaimed had dropped to around 27%. The total market value of matured CTFs in April 2021 was £0.8 billion, of which around half belonged to matured CTFs that had yet to be claimed by the account holders, and the total value of unmatured accounts was £9.7 billion (paragraphs 4.2 and 4.4).

13 **HMRC estimated that in April 2021 there were 5.5 million CTFs, including those that had matured and been claimed, a fall from a peak of 6.3 million in 2013.** HMRC is currently analysing the reasons for the decrease. Some of the decrease is because, between 2015 and 2021, some account holders converted their CTFs into Junior Individual Savings Accounts (ISAs), but HMRC does not know how many. HMRC acknowledges that the decrease is partly due to incomplete data from some CTF providers (paragraph 4.3).

14 **In April 2021, the average market value of CTFs belonging to children in local authority care was around 60% less than that for all CTFs.** The average market value of all CTFs was £1,911, whereas CTFs belonging to children in care had an average market value of £1,101. In March 2021, there were 19,000 CTFs belonging to children in care who did not have a responsible adult to manage the account. Since 2017, a charity, The Share Foundation, has managed these on behalf of the Department for Education, which has policy responsibility for children in care (paragraphs 1.3, 4.2 and 4.5).

15 **It is unclear how many CTF account holders are either not aware of, or unable to locate, their CTF.** A YouGov survey of parents of children aged 8 to 16 conducted in March 2019 found that one in six parents were not aware of the CTF scheme. The government has attempted to raise awareness of CTFs among young people. For example, in 2019, HMRC began publicising the possibility that a child could have a CTF when writing to 15-year-olds with their National Insurance number. Since at least 2013, HMRC has hosted an online tool for individuals to trace accounts. A group of CTF providers is working independently of HMRC to raise awareness of CTFs among young people, and to help CTF account holders identify which provider holds their account. The group is working with an organisation that specialises in tracing individuals and reuniting them with lost accounts (paragraphs 4.6 to 4.10).

The future of the Child Trust Fund scheme

16 The government has not yet decided its long-term strategy to manage CTFs that remain unclaimed several years after maturing. HMRC is working on a strategy that may include more actively tracing account holders. The Dormant Assets Scheme enables some financial assets, such as money in bank or building society accounts, where there has been no customer-initiated activity for a set number of years to be used for the benefit of the community. In time, some matured CTFs are likely to be transferred into the scheme (paragraphs 4.11 and 4.12).

17 Some CTF providers have introduced a process that allows the families of young adults who lack the mental capacity to manage their own finances to access their matured CTFs. In general, parents or guardians must apply to the Court of Protection for legal authority to access and manage the assets of adults who lack the mental capacity to do so. The Ministry of Justice (MoJ) estimates that this may affect between 63,000 and 126,000 CTF account holders when they reach 18 years old. Some families have reported finding the process to access funds difficult, time-consuming and costly. In response to this, since December 2020, MoJ has waived the Court of Protection application fee (currently £371) when the young adult has only a CTF and no other substantial assets, and has produced material to support and raise awareness among families affected in this way. At the end of 2020, some CTF providers introduced a process, at their own risk, to allow families of young people without capacity to access funds in a CTF up to £5,000 without obtaining legal authority. Other providers have since adopted the process. In February 2023, the government decided against introducing a scheme that would allow families and carers of adults without capacity to access their funds, including CTFs, without applying to the Court of Protection. Instead, the government plans to improve the process for applying to the Court of Protection and raise awareness of the Mental Capacity Act (2005) (paragraphs 4.13 and 4.14).

18 The government has no plans to re-evaluate the CTF scheme to supplement its learning from an evaluation in 2011. The 2011 evaluation found that CTFs had led to a statistically significant increase in savings, whether in CTFs or other savings accounts, for children living in non-home-owning households. However, the evaluation found no evidence that CTFs had a statistically significant effect on savings when considering all children with a CTF. The government has no plans to evaluate the CTF scheme again, despite the scheme's effectiveness against some of its aims only becoming assessable after accounts began to mature. It does not have the data that would allow it to analyse how groups of young adults targeted by the scheme, for example those from low-income families, were affected by it (paragraphs 2.9, 4.15 and 4.16).

Concluding remarks and recommendations

19 In trying to establish how many young people may have lost track of their investments in Child Trust Funds, we found that the evidence available is limited. However, estimates indicate that more than one-quarter of accounts remain untouched one year after maturing. This suggests that a substantial proportion of young people have not attempted to manage their accounts when they reached the age of 18.

20 We have previously found that departments across government can struggle to keep institutional knowledge and learning from past programmes. A re-evaluation of the scheme after a significant proportion of CTFs have matured would improve the evidence base available to the government for future savings and assets policy proposals, including any changes to the Junior ISA scheme.

21 HMRC is increasing its engagement in CTFs now they are maturing. As it is now more closely monitoring and reporting on CTFs, it should seek to:

- review its current efforts to raise awareness of the CTF scheme among young adults and assess whether they are sufficient; and
- re-evaluate the CTF scheme once an appropriate amount of time has passed since accounts began to mature.