National Audit Office

REPORT

Investigation into Child Trust Funds

HM Revenue & Customs

SESSION 2022-23
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HC 1197

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Investigation into Child Trust Funds

HM Revenue & Customs

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

7 March 2023

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Investigations

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This report covers Child Trust Funds: tax-free, long-term savings accounts for 6.3 million children born between 1 September 2002 and 2 January 2011, into which the government paid £2 billion. We examined HM Revenue & Customs' management of the Child Trust Fund scheme from 2005 to date, how it is supporting young people to access their funds once they reach 18 years old, and what it is doing to understand how many children have lost track of their accounts.

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Key facts

£2.0bn	6.3mn	£394mn
paid by the government into Child Trust Funds (CTFs) between 2005-06 and 2011-12	CTF accounts opened for children born between 1 September 2002 and 2 January 2011 inclusive	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175,000	number of 18-year-olds who had withdrawn or re-invested the funds from their matured CTF account by 5 April 2021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.

Part One

Implementation of Child Trust Funds

1.1 This part describes how HM Revenue & Customs (HMRC) introduced the Child Trust Fund (CTF) scheme in 2005. It covers the different types of CTF account, how they were opened, how they are managed, and the scheme's closure to children born after 2 January 2011.

How Child Trust Fund accounts were opened

1.2 HMRC identified children eligible for a CTF through entitlement to Child Benefit. Once a responsible adult, usually a parent or guardian and known as the 'registered contact', was awarded Child Benefit for a child, the Child Benefit system automatically alerted HMRC.[3] This triggered HMRC to send a voucher to the registered contact allowing them to open a CTF for the child with a CTF provider of their choice. HMRC approved a range of banks, building societies, credit unions, friendly societies, other mutual societies and equivalent organisations to provide CTFs (**Figure 1**). CTF providers are regulated by the Financial Conduct Authority.

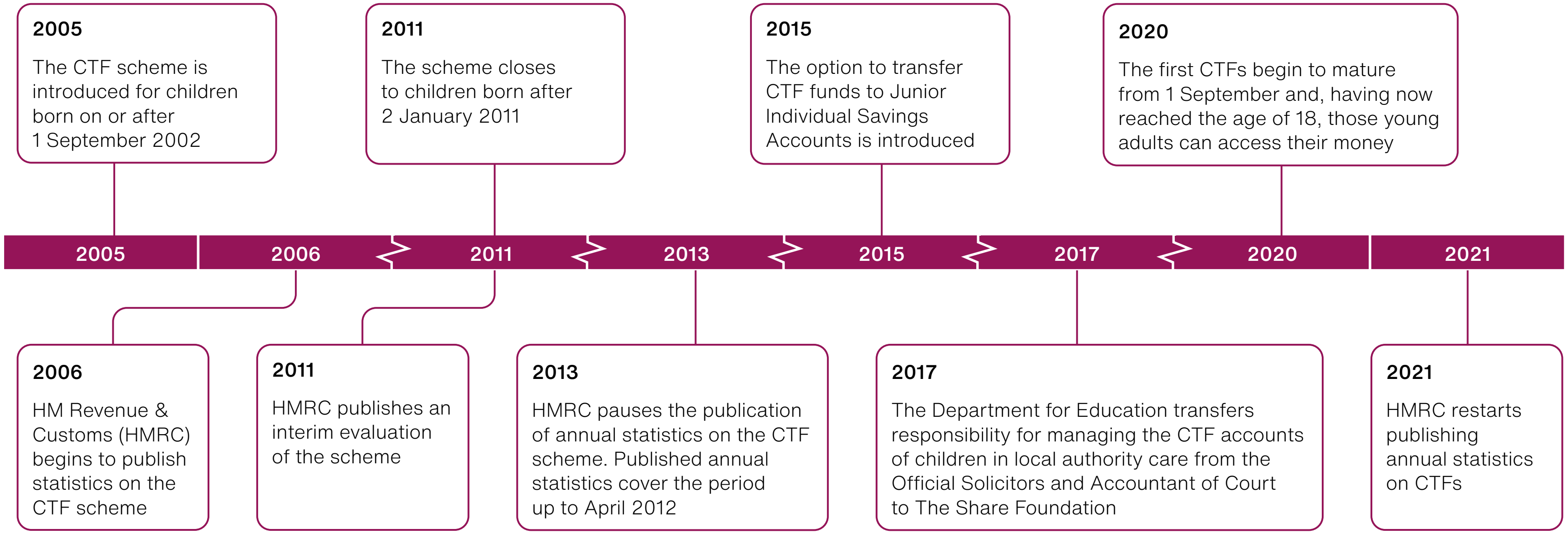
1.3 Local authorities had a statutory duty to inform HMRC every month of children who came into their care where there was no adult with parental responsibility. If the child did not already have a CTF, HMRC opened one on their behalf. The Official Solicitor for England and Wales, the Accountant of Court for Scotland, or the Official Solicitor for Northern Ireland managed the child's CTF account until a responsible adult was found or the child reached the age of 16. Between the start of the scheme and April 2012, HMRC referred around 13,400 CTFs to these organisations. In 2017, HMRC and the Department for Education (DfE) transferred responsibility for managing these accounts to a charity, The Share Foundation.[4]

3 HMRC was created on 18 April 2005. Prior to this date, CTF responsibilities lay with the Inland Revenue.
4 The Department for Education (DfE) has policy responsibility for children in care. DfE was formed on 12 May 2010, taking on the responsibilities of its predecessor, the Department for Children, Schools and Families. Throughout this report, we use DfE to refer to both it and its predecessor.

Figure 1

A timeline of key events related to the Child Trust Fund (CTF) scheme from 2005 to 2021

The CTF scheme was open to children born between 1 September 2002 and 2 January 2011 inclusive



Source: National Audit Office analysis of HM Revenue & Customs documents

Types of Child Trust Fund account

1.4 There are three types of CTF account (**Figure 2**), which vary by risk and potential return on investment.

- **Stakeholder accounts:** Funds are invested in stocks and shares. There are conditions on the accounts to protect account holders. Some types of investment are excluded, and the investment portfolio must contain equities and be well diversified. CTF providers' charges on accounts are capped at 1.5% per year, and there are rules around how money can be paid into the accounts. Originally, there was a requirement for providers to move to lower-risk investment portfolios when children reached 13 years old, to ensure stable returns in the run-up to the children reaching 18 years old. This requirement was removed in 2017.
- **Non-stakeholder (stocks and shares):** Investment accounts that are not subject to the same conditions as stakeholder accounts and have fewer restrictions on the types of investment that can be held.
- **Non-stakeholder (cash):** These work in a similar way to a bank deposit account. The account pays interest on the cash balance.

1.5 CTF vouchers issued by HMRC were initially valid for 12 months, reduced to 60 days from 1 January 2012. If the registered contact did not open a CTF before the voucher expired, HMRC opened a stakeholder account on the child's behalf. HMRC wrote to the registered contact informing them which CTF provider held their child's account and providing information to support them to manage it.

Management of Child Trust Funds

1.6 The funds in a CTF are managed by the registered contact and held in trust until the account matures when the account holder reaches the age of 18. The registered contact can make investment decisions, change the type of account or move the account to a different CTF provider. Except for the cost of selling shares, there are no fees or penalties for transferring funds between providers. Anyone can pay money into a CTF.

1.7 The account holder can choose to take over managing the account at 16 years old and can access the funds at 18 years old. At this point, legal ownership of the CTF transfers to the account holder and the account becomes a protected account. No further payments can be made into the account, but interest and gains on investments continue to accrue. Matured CTF accounts are subject to the same general terms and conditions that applied before the account matured. The matured accounts remain in this state until the account holder withdraws the funds or instructs the CTF provider to transfer the funds to another account, for example an Individual Savings Account (ISA). The first CTFs reached maturity in September 2020 when account holders began reaching the age of 18.

Figure 2

The different types of Child Trust Fund (CTF) account and their values, April 2012

HM Revenue & Customs (HMRC) reported that 6.1 million CTF accounts had been opened, as at April 2012

Child Trust Fund accounts

Total number of CTF accounts:

6.1 million

Total value of CTF accounts **£4,893 million**

Stakeholder accounts

Funds are invested in stocks and shares, with conditions on the profile of investments and on other aspects of the accounts to protect account holders.

Number of accounts:

4.8 million

Value **£3,665 million**

Non-stakeholder accounts

These accounts are not subject to the same conditions as stakeholder accounts and have fewer restrictions on the types of investment that can be held.

Number of accounts:

1.3 million

Value **£1,228 million**

Accounts opened by parents/guardians

Accounts where the child's parent/guardian opened the account when the child was born.

Number of accounts:

3.1 million

Value **£2,813 million**

Accounts opened by HMRC

These are accounts HMRC has opened where the child does not have a responsible parent/guardian or a parent/guardian did not open the account within the allotted time.

Number of accounts:

1.7 million

Value **£852 million**

Shares

Funds are invested in stocks and shares, but these accounts are not subject to the same requirements as stakeholder accounts.

Number of accounts:

0.3 million

Value **£391 million**

Cash

These accounts operate like a bank deposit account. There is a rate of interest and funds are secure.

Number of accounts:

1.0 million

Value **£837 million**

Notes

1 We have presented data from April 2012 because these are the most recent data available at this level of detail. Around 200,000 more accounts were set up after April 2012 for children born on or before 2 January 2011 but where there had been a delay issuing a voucher, for example if the parents were late applying for Child Benefit, or there were immigration issues to resolve.

2 Values are in cash terms.

Source: National Audit Office analysis of HM Revenue & Customs data

1.8 At the beginning of the scheme, CTF providers were required to send account holders annual account statements. These statements included key information, including the total market value of the investments in the account and the amount of any government payments. Since April 2011, providers do not have to produce annual statements for accounts which have not received any payments (except for any from government) in the previous 12 months. However, providers are still required to provide statements in the year following the children's 10th, 15th and 17th birthdays.

Scheme closure

1.9 In 2010, the government announced the closure of the CTF scheme to new entrants. Children born on or after 3 January 2011 were not eligible for a CTF. The government reduced its payments into CTFs for children born on or after 2 August 2010. HMRC published an interim evaluation of the scheme in January 2011.[5]

1.10 The government replaced the CTF scheme with Junior ISAs, which could be opened from 1 November 2011. Like CTFs, Junior ISAs are long-term, tax-free savings accounts, usually managed by a child's parents or guardians, where the child may take control of their account when they are 16 years old and can access the money when they are 18 years old. A child cannot have both a CTF and a Junior ISA, but from 2015, an existing CTF could be closed and the funds transferred to a Junior ISA. There are two types of Junior ISA: cash, and stocks and shares.

1.11 Apart from children in the care of a local authority, the government does not set up Junior ISAs for children or make any financial payments. If a child who does not already have a CTF is in the care of a local authority for a continuous period of 12 months or more, the government will provide an initial £200 payment to open a Junior ISA for them. The Share Foundation, under contract to DfE, administers Junior ISAs for children in care.

5 E Kempson, A Finney and S Davies, *The Child Trust Fund: Findings from the Wave 2 evaluation*, HM Revenue & Customs Research Report 143, HM Revenue & Customs, January 2011. Available at: www.gov.uk/government/publications/child-trust-fund-study-wave-2-results

Part Two

The Child Trust Fund scheme from 2005 to 2012

2.1 This part sets out details of the scheme over the period 2005 to 2012 when almost all Child Trust Funds (CTFs) were opened. It includes analysis of the number and value of CTFs by type of CTF, how CTFs were opened, the value of additional payments from the government, and additional payments from family, friends and others.

Number of Child Trust Funds

2.2 HM Revenue & Customs (HMRC) sent just over 6.3 million vouchers to parents and guardians of children born between 1 September 2002 and 2 January 2011 inclusive. By April 2012, around 6.1 million accounts had been set up through the scheme. Around 200,000 more accounts were set up after April 2012 for children born on or before 2 January 2011 but where there had been a delay issuing a voucher, for example if the parents were late applying for Child Benefit, or there were immigration issues to resolve.

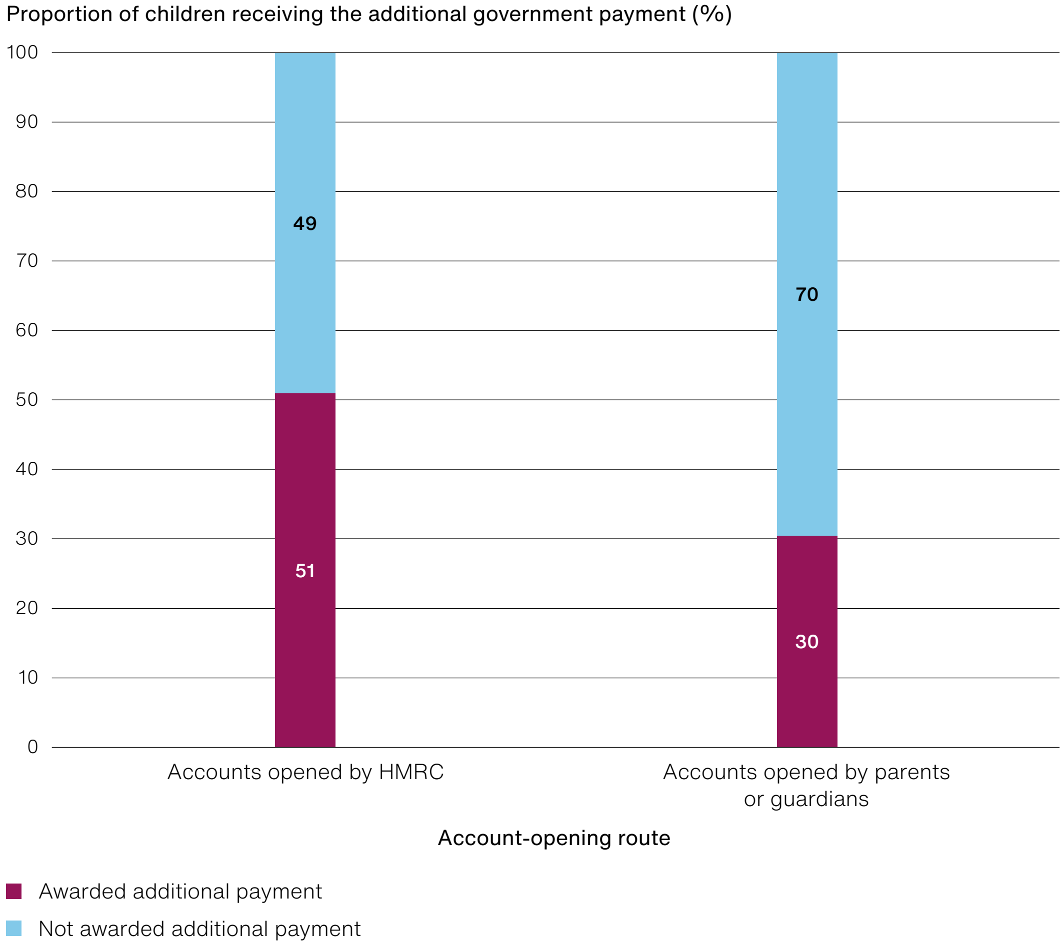
2.3 HMRC reported in 2013 that, by April 2012, just over 4.8 million stakeholder CTF accounts (79% of all accounts) had been opened. Of these, 3.1 million were opened by the child's family, and 1.7 million were opened by HMRC on the child's behalf (all CTF accounts set up by HMRC on behalf of children were stakeholder accounts). Parents and guardians had also opened 1.3 million non-stakeholder accounts (21% of all accounts). Of these, 1.0 million accounts (17% of all accounts) were interest-earning cash accounts, and 257,000 accounts (4% of all accounts) were non-stakeholder investment accounts.

2.4 HMRC set up about 1.7 million CTF accounts (28% of all accounts) after parents did not do so within the 12-month time period. Of these accounts, 51% (887,000) were for children in low-income families (**Figure 3** overleaf). By comparison, 30% (1.3 million) of the 4.4 million accounts set up by parents or guardians were for children in low-income families. All children from low-income families received additional government payments into their CTFs.

Figure 3

Proportion of Child Trust Fund accounts that received an additional government payment for children from low-income families, by account-opening route, as at April 2012

Children whose accounts were opened by HM Revenue & Customs (HMRC) were more likely to receive the additional government payment



Note

1 Additional government payments were given to children from low-income families.

Source: National Audit Office analysis of HM Revenue & Customs, *Child Trust Fund Statistics: Detailed Distributional Analysis* (*Accounts opened by 5 April 2012*), February 2013

Payments into Child Trust Funds

2.5 The government paid more than £2.0 billion in cash terms into CTFs between 2005-06 and 2011-12 (£2.6 billion in 2021-22 real terms) (**Figure 4** overleaf). Most CTFs received an initial government payment of £250. Children living in low-income families (triggered by a qualifying tax credit, income support or job seeker's allowance) and children in the care of a local authority received an additional £250 from government (£500 in total).[6] When a parent or other responsible adult opened an account using a voucher, the account provider told HMRC, triggering HMRC to pay the initial payment to the CTF provider, who would credit the child's account. For children born on or after 2 August 2010, government payments were reduced to £50, or £100 for children in low-income families or in the care of local authorities. Children born after 2 January 2011 were no longer eligible for CTFs, but payments could still be made to existing accounts. Parents, guardians, friends and others paid, in cash terms, around £5.7 billion into children's CTFs between 2005 and 2021 (£1.8 billion during the period the government was paying into the scheme and £3.8 billion since).[7]

2.6 Some other groups of children received additional government payments on top of the initial payments.[8]

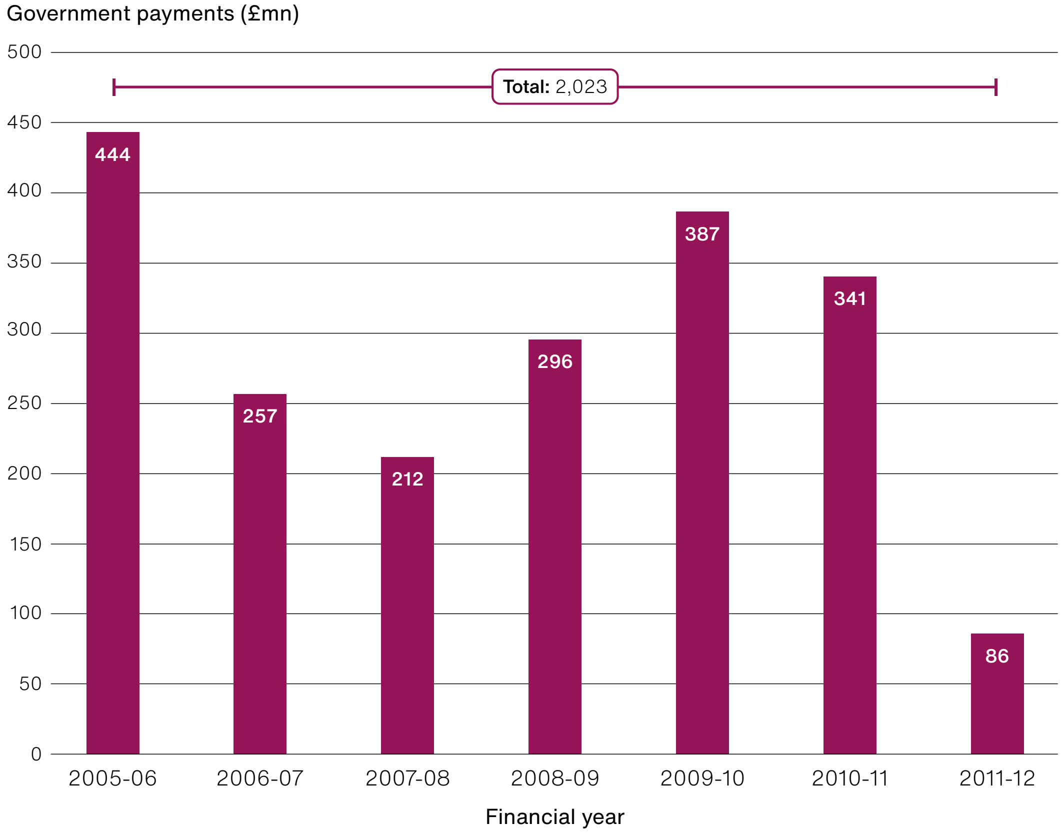
- Children receiving Disability Living Allowance in the years 2009-10 and 2010-11 received payments of £100 into their CTF. Those receiving the highest rate of the care component of the Disability Living Allowance received £200. HMRC does not know the total of these payments because it has not retained the data from that period, in line with its usual data retention policy. We estimate the total amount was at least £18 million.
- In each of the years 2008-09, 2009-10 and 2010-11, children who had been in the care of a local authority for at least 12 months received £100. Each local authority received a funding allocation, and it was the local authority's responsibility to make the payments into children's accounts. In England, this was funded by the Department for Education (DfE). The total amount DfE gave to local authorities in England was £3.3 million.
- Between 1 September 2009 and 31 July 2010, children reaching the age of 7 received an additional payment of £250. For children living in low-income families or in the care of a local authority, the payment was £500. Only one cohort of children received it before new legislation came into force removing this additional payment.

6 Because the scheme was backdated to 2002, children born before 5 April 2005 received between £256 and £277 to reflect growth in the amounts invested. Children born before 5 April 2005 who received additional government payments, received between £512 and £554 to reflect growth in the amounts invested.
7 Figures do not sum due to rounding. In 2021-22 real terms, parents, guardians, friends and others paid around £6.6 billion into children's CTFs between 2005 and 2021 (£2.3 billion during the period the government was paying into the scheme and £4.3 billion since).
8 This list excludes additional payments made by the devolved administrations.

Figure 4

Annual government payments into Child Trust Funds (CTFs), 2005-06 to 2011-12

Between 2005-06 and 2011-12, government paid more than £2 billion into CTF accounts



Notes

1 Government payments include initial vouchers, top-up payments at the age of 7, and extra central government payments to disabled children. We have been unable to determine whether these data include payments made by central government bodies other than HM Revenue & Customs, such as payments made to children in local authority care by the Department for Education via local authorities.

2 For children born on or after 2 August 2010, government payments were reduced to £50, or £100 for children in low-income families or in the care of local authorities.

3 Data are in cash terms.

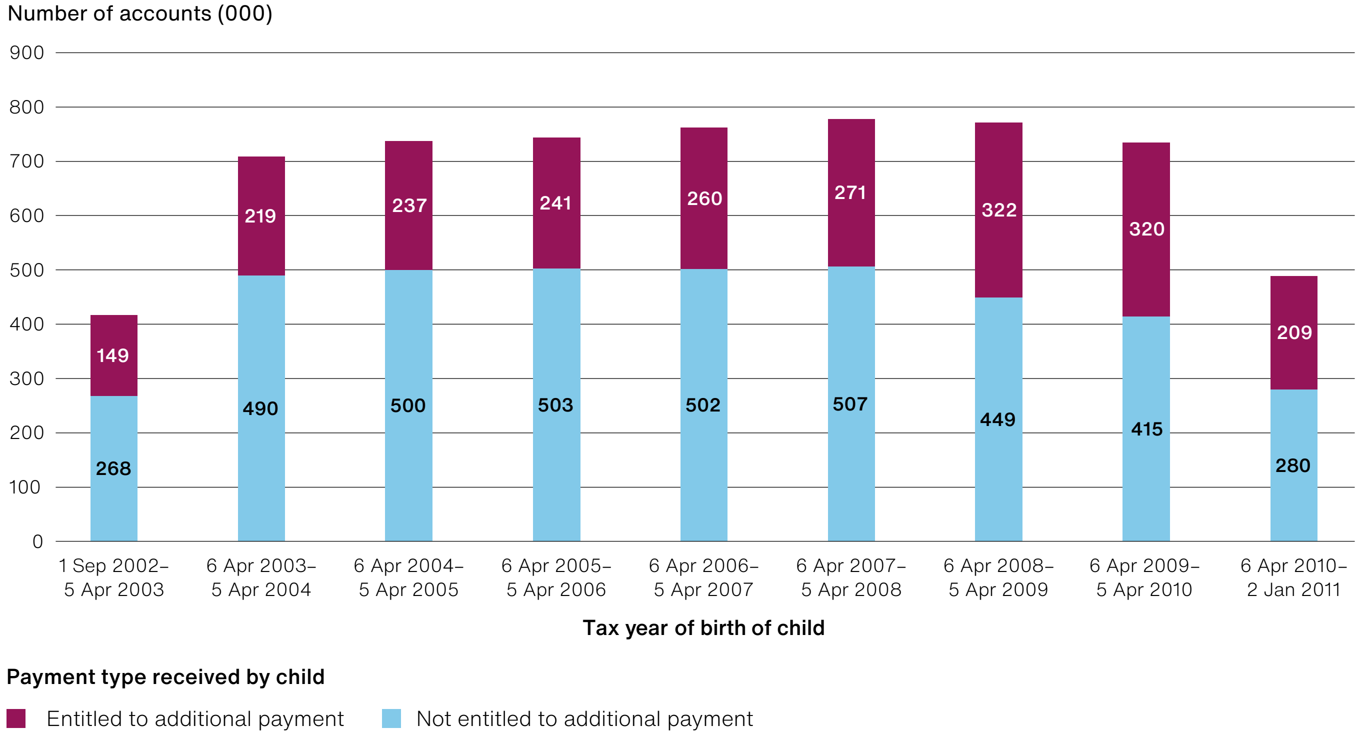
Source: National Audit Office analysis of HM Revenue & Customs documents

2.7 The proportion of children receiving higher government payments each year generally increased over the period accounts were being set up. The year when the highest proportion of children received the additional payments was 6 April 2009 to 5 April 2010 (44%) (**Figure 5**). By April 2012, around 2.2 million (36%) CTFs in total had received additional government payments. We estimate that around £0.6 billion (around one-third) of the £2 billion total CTF payments HMRC made were additional payments to children from disadvantaged groups.

Figure 5

Number of children born in each tax year receiving government payments into their Child Trust Fund (CTF) accounts, September 2002 to January 2011

The proportion of children receiving additional government payments generally increased over the lifetime of the scheme



Date of birth of child	Accounts opened	Proportion of children entitled to additional payment
	(000)	(%)
1 September 2002 – 5 April 2003	417	36
6 April 2003 – 5 April 2004	709	31
6 April 2004 – 5 April 2005	737	32
6 April 2005 – 5 April 2006	744	32
6 April 2006 – 5 April 2007	762	34
6 April 2007 – 5 April 2008	778	35
6 April 2008 – 5 April 2009	771	42
6 April 2009 – 5 April 2010	735	44
6 April 2010 – 2 January 2011	489	43
Total	**6,141**	
Proportion (all age groups)		36

Notes

1 Data presented for the periods 1 September 2002 to 5 April 2003 and 6 April 2010 to 2 January 2011 represent partial tax years, because the start and finish dates (1 September 2002 and 2 January 2011) for entitlement to a CTF fell within tax years.

2 Numbers do not sum due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs data

2.8 Between the scheme beginning in 2005 and 2010, 37% of CTFs received additional funds into them other than government payments, mainly from family and friends. Children from low-income families were less likely to receive payments from sources other than the government compared with those from families with higher incomes. For example, between April 2011 and April 2012, soon after the scheme closed to new entrants, 11% of CTFs for children from low-income families received additional payments, with an average payment of £202. By contrast, 27% of accounts for children from higher-income families had received additional payments, with an average payment of £342. In total, 21% of all CTF accounts received payments in that period in addition to those from the government, totalling £407 million.[9] Since it paused the publication of annual statistics on the CTF scheme in 2013, HMRC has not collected data on the relationship between CTF payments and family income or other social or economic factors.

2.9 HMRC evaluated the effectiveness of the scheme in 2010 (reporting in 2011) when the oldest cohort of children with CTFs were reaching the age of 7 (**Figure 6**). The evaluation was based on in-depth interviews with around 2,500 parents or guardians of children (2,000 with a CTF and 500 not eligible for a CTF) conducted in February and March 2010. It found that CTFs had increased the total amounts saved for children living in non-home-owning households by around £600, and that CTFs appeared to have led some parents to open and pay into a savings account for older siblings not eligible for a CTF. However, it found that, overall, CTFs had no statistically significant effect on rates of saving for children or on the total amounts held in savings among children, whether in CTF or other accounts.

9 The data in this paragraph on payments between April 2011 and April 2012 are from HM Revenue & Customs, *Child Trust Fund Statistics: Detailed Distributional Analysis (Accounts opened by 5 April 2012)*, February 2013. We have been unable to determine whether, in these statistics, payments from government sources other than HMRC were treated as a government payment or as a non-government payment. Examples include payments made to children in local authority care by DfE via local authorities.

Figure 6
Selected findings from the 2011 evaluation of the Child Trust Fund (CTF) scheme

The 2011 evaluation found that 37% of CTF accounts had received payments from family, friends or other non-government sources

Topic	Selected findings
CTF account opening and management	In most cases (86%), parents said they found it easy to know what to do with the vouchers.
	Most of those who opened the CTF accounts found it easy to choose the CTF provider (79%), often choosing one they had an existing relationship with, and to choose the type of account (80%).
	Although many who had a CTF account opened by the government said that they had "just not got round to" opening an account, there were often underlying barriers to account opening.
Saving into CTF accounts	Just over one-third of CTFs (37%) had received any payments other than those from the government. One-quarter (26%) had received payments from parents, guardians, friends or others in the previous 12 months.
	Accounts opened by the government were the least likely to have received any payments from family and friends.
	The main reasons parents gave for not paying into a CTF were affordability, dislike of certain aspects of CTFs, or a preference for paying into a different type of account chosen by the parents themselves. However, the rules in themselves were not a huge barrier to most.
Other savings and investments held for children	Some 60% of children eligible for a CTF had some other form of savings vehicle, mostly deposit accounts.
	Although larger average amounts were saved in other accounts (£600) compared with CTFs (£300), CTFs nonetheless comprised an appreciable proportion of the overall amount saved for these children.
Impact of the CTF on saving for and by children	Impact analysis identified no statistically significant effect of CTFs on rates of active saving for children (whether into CTFs or other accounts) or on the total amounts held in savings for children overall.
	There was clear statistical evidence that CTFs had had a positive impact, of an estimated £618, on the total amounts saved for children living in non-home-owning households.

Source: National Audit Office analysis of E Kempson, A Finney and S Davies, *The Child Trust Fund: Findings from the Wave 2 evaluation*, HM Revenue & Customs Research Report 143, HM Revenue & Customs, January 2011

Part Three

Oversight and management of Child Trust Funds

3.1 This part of the report describes the Child Trust Fund (CTF) providers and examines how HM Revenue & Customs (HMRC) has monitored the CTF scheme since its closure to children born after 2 January 2011, including the data it publishes and how it monitors CTF providers.

HMRC's monitoring of Child Trust Funds

3.2 HMRC published annual statistics on the scheme covering the years that new-born children were eligible for CTFs. It published the final annual statistical release in 2013 based on data from April 2012, after the scheme had closed to children born after 2 January 2011. Up to this point, HMRC received fortnightly and annual returns from CTF providers, allowing it to monitor new accounts being opened and payments made into them. Between 2013 and 2020, HMRC required providers to complete only annual returns about their portfolio of accounts, and it did not publish annual statistics on CTFs. During this period, HMRC prioritised other activities. It did not chase all missing returns and did not clean or verify the data. The available statistical data from this period are therefore incomplete and less reliable than data collected while new-born children were eligible for CTFs.

3.3 HMRC began to publish annual statistics on CTFs again in 2021. Its most recent published statistics, released in June 2022, present the situation as at 5 April 2021. This is seven months after the first account holders reached the age of 18, their accounts matured and they could access their money. The data in this statistical release on the market value of claimed accounts have known weaknesses. For example, CTF providers reported to HMRC that 27,000 claimed matured CTFs (15% of all claimed matured CTFs) had a market value of £0.00, which is incorrect. HMRC told us this is likely due to errors in returns from providers. In addition, the statistical release is based on annual returns from 41 providers. HMRC does not have equivalent data from another 14 active providers.

3.4 HMRC told us that it operates a risk-based approach to compliance, which it reviews annually. HMRC assesses that there is a low risk of CTF providers not complying with CTF regulations. It told us that it therefore does not currently need to undertake routine compliance reviews of providers, over and above reviewing the annual data returns from providers. It told us it would act if it were to receive information that there was a risk that a provider was not complying with regulations. This could include inspecting a provider.

3.5 HMRC estimates it spent £5 million per year in administration costs running the CTF scheme during the time when most new accounts were being opened. In 2013, HMRC estimated that its administration costs would reduce to around £2 million per year from 2013-14. HMRC told us it cannot identify the current administration costs of the scheme because activity on the scheme is distributed across teams that undertake other activity. It maintains a provision of £0.4 million for payments into newly set up CTFs for children who become eligible, for example children returning to live in the UK who qualify for a CTF.

Child Trust Fund providers

3.6 The number of CTF providers increased over the period the scheme was open to newly born children, as more financial organisations began to offer CTF accounts. The number has fallen since the policy ended in 2011 as existing providers stopped offering accounts and transferred existing accounts to other providers, or providers merged. At the start of the scheme, HMRC had approved 31 organisations to be providers of CTF accounts by April 2005. In April 2011, there were 74 providers (**Figure 7** overleaf).[10] By February 2023, the number of providers had reduced to 55.

3.7 As at April 2021, some 65% of CTFs were managed by friendly societies or other mutual societies. Banks and building societies managed 32% of CTFs.[11] Between 2011 and 2021, the proportion of accounts managed by friendly societies and other mutual societies increased, while the proportion managed by banks decreased and the proportion managed by building societies stayed the same (**Figure 8** on page 27). Some CTF providers offered accounts with additional conditions, for example ethical investment accounts and accounts compliant with Sharia. Other organisations known as 'distributors' also offered a service that allowed customers to set up CTF accounts with some providers at places such as high street shops, instead of dealing directly with providers. The number of approved CTF distributors peaked in April 2006 at 79. Following the closure of the scheme to children born after 2 January 2011, most providers stopped operating through distributors.

3.8 CTF providers' charges on stakeholder CTF accounts were capped at 1.5% of the CTF's value per year. HMRC does not track what providers are charging customers. Our research suggests that the largest providers are charging the maximum rate of 1.5%. The market value of stakeholder CTFs (excluding mature CTFs) was £7.4 billion in April 2021, and we estimate that if all providers had charged 1.5% of the accounts' market value, CTF account holders would have paid around £100 million to providers in the year to April 2021. Charges for non-stakeholder CTF accounts are not capped, meaning providers can, for instance, charge a flat annual fee for these CTFs.

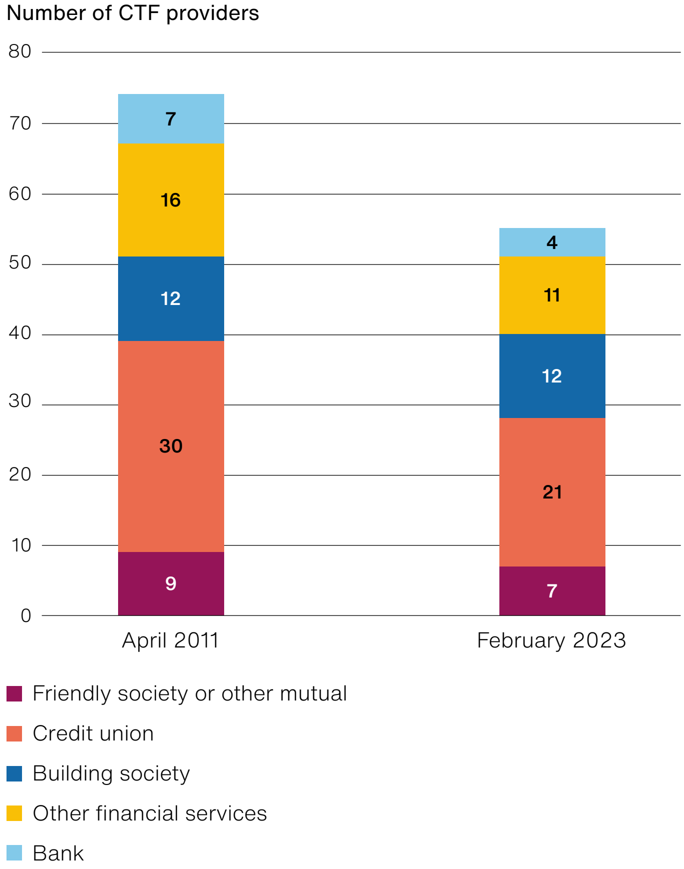
10 Our estimate is higher than the number of approved CTF providers reported by HMRC in 2013. See paragraph 16 of Appendix One for more detail.

11 These data are based on annual returns from 41 CTF providers. HMRC does not have equivalent data from another 14 active CTF providers.

Figure 7

Number of Child Trust Fund (CTF) providers, April 2011 and February 2023

The number of CTF providers has decreased from 74 to 55 in the period since the scheme closed to new entrants



Note

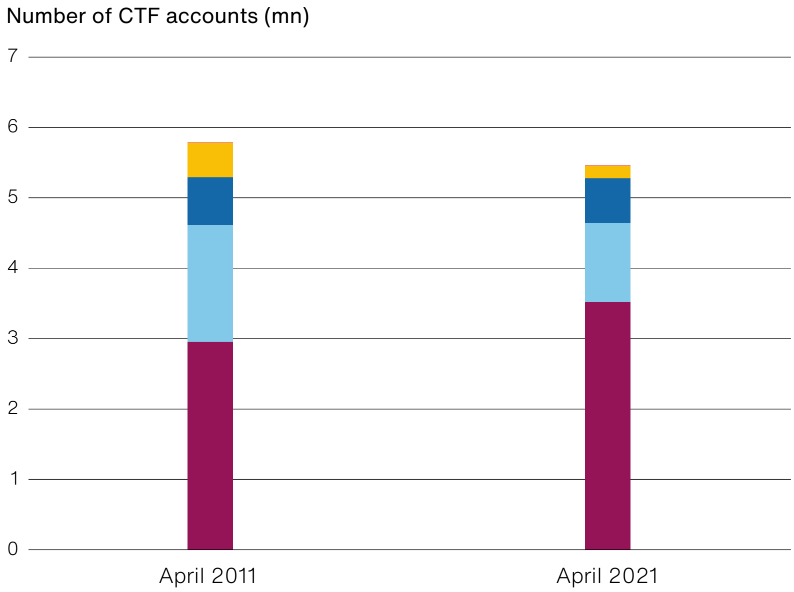
1 We categorised CTF providers into five types based on data about each provider available online.

Source: National Audit Office analysis of HM Revenue & Customs data and publicly available provider data

Figure 8

Number of Child Trust Fund (CTF) accounts, by CTF provider type, April 2011 and April 2021

More than half of CTFs are managed by friendly societies or other mutual societies



	April 2011	April 2021
Friendly society or other mutual	2.959	3.527
Bank	1.663	1.123
Building society	0.669	0.628
Other financial services	0.494	0.182
Credit union	0.003	0.003
Total (million)	**5.788**	**5.464**

Notes

1 Includes both claimed and unclaimed CTF accounts that have matured.

2 We categorised CTF providers into five types based on data about each provider available online.

3 In 2021, HM Revenue & Customs received 47 annual data returns, covering 41 unique CTF providers. It told us 14 providers did not submit returns as required but are still active, and another provider submitted a partial return. We estimate the total market value of all CTFs may be understated by around £0.4 billion.

4 Numbers have been presented in millions. Totals may not sum due rounding.

5 The number of accounts held by credit unions in April 2011 was around 3,400 and the number in April 2021 was just under 3,000. Both round to 0.003 million in the table above.

Source: National Audit Office analysis of HM Revenue & Customs data and publicly available provider data

Part Four

Current understanding of Child Trust Funds

4.1 This part presents the most up-to-date understanding of the Child Trust Fund (CTF) scheme, based mainly on HM Revenue & Customs' (HMRC's) most recent published statistics relating to April 2021. It covers children and young people's awareness of their CTFs, the actions of HMRC and others to improve awareness, and the future of the scheme.

Child Trust Fund accounts as at April 2021

4.2 HMRC reported that in April 2021 there were 5.5 million CTFs (5.2 million unmatured CTFs and 0.3 million matured CTFs) with a total market value of £10.5 billion (unmatured CTFs valued at £9.7 billion, matured CTFs valued at £0.8 billion), an average of £1,911 per CTF, comprising:

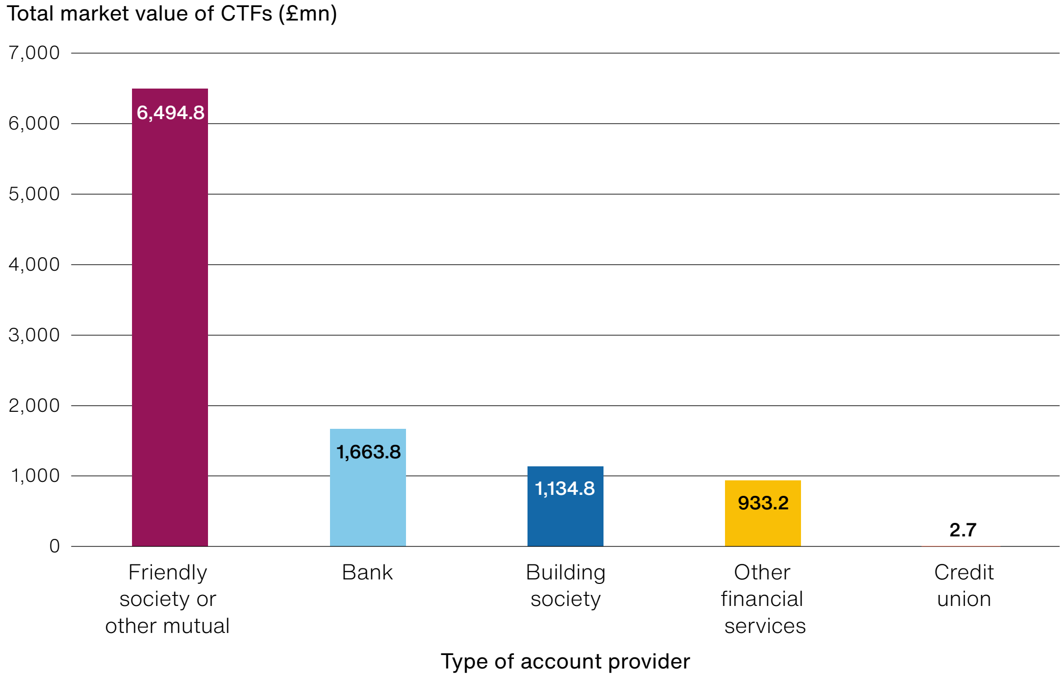
- 4,173,000 unmatured stakeholder CTFs valued at £7.4 billion in total, an average of £1,776 per account;
- 992,000 unmatured non-stakeholder CTFs valued at £2.3 billion in total, an average of £2,321 per account;
- 175,000 claimed matured accounts, where the funds have either been withdrawn or re-invested by the account holder, valued at £376 million in total, an average of £2,142 per account; and
- 145,000 unclaimed matured accounts valued at £394 million in total, an average of £2,721 per account.

Most funds (£6.5 billion) were in accounts managed by friendly societies or other mutual societies (**Figure 9**). Credit unions collectively managed around 2,900 accounts with total funds of £2.7 million.

Figure 9

Total market value of Child Trust Funds (CTFs), by type of account provider, April 2021

Friendly societies and other mutual societies manage most of the CTF market by value



Notes

1 Includes both claimed and unclaimed CTF accounts that have matured.

2 We categorised CTF providers into five types based on data about each provider available online.

3 In 2021, HM Revenue & Customs received 47 annual data returns, covering 41 unique CTF providers. It told us 14 providers did not submit returns as required but are still active, and another provider submitted a partial return. We estimate the total market value of all CTFs may be understated by around £0.4 billion.

4 The sum of the values reported here (£10,229 million) differs from the total value of all CTFs (including matured claimed CTFs) presented in paragraph 4.2. HM Revenue & Customs applied an adjustment to the data presented in paragraph 4.2 to correct for missing values, which has not been applied to the provider-level data presented in this figure.

Source: National Audit Office analysis of HM Revenue & Customs data and publicly available provider data

4.3 The total number of unmatured and matured CTFs fell by around 0.8 million from a peak of 6.3 million in 2013 to 5.5 million in April 2021. 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 is currently analysing the reasons for the decrease. It acknowledges that the decrease is partly due to incomplete data from some CTF providers. In 2021, HMRC received 47 annual data returns, covering 41 unique CTF providers.[12] It told us another 14 providers did not submit returns as required, but are still active. These providers comprised seven credit unions, two building societies, two friendly societies and three other financial services organisations. We estimate these 14 providers currently collectively manage up to 0.3 million CTFs based on their previous returns. HMRC will give an update on this issue, and consider any revisions to published statistics, in the next publication of the CTF statistics in June 2023.

4.4 The Investing and Saving Alliance (TISA) represents organisations that provide investment and savings products. It has estimated the proportion of accounts that are unclaimed, based on data from organisations it represents that include more than 60% of CTF accounts. TISA told us that it estimated that less than half of all matured accounts were still unclaimed by August 2022, while for those accounts which had matured one year ago or longer, around 27% remained unclaimed.

4.5 In 2017, The Share Foundation took over responsibility for managing the accounts of children who came into the care of local authorities where there was no adult with parental responsibility. It told us the list of 12,000 accounts it inherited from the Official Solicitors and Accountant of Court was incomplete and out of date. For example, the list included children who had moved out of care. It did a data reconciliation exercise with local authorities, resulting in the number of accounts it managed on behalf of children in care rising to 19,000 by March 2021. By spring 2021, CTFs belonging to children in local authority care and managed by The Share Foundation had an average market value of £1,101, around 60% of the average value of £1,911 for all CTFs. In late 2021, The Share Foundation began to convert some of the CTFs it manages into Junior ISAs, which it continued to manage. By September 2022, it was managing around 13,000 remaining CTF accounts on behalf of children in care.

12 Some CTF providers continued to report on their portfolios of CTFs to HMRC in separate returns after mergers of providers or the transfer of portfolios between providers.

Children's and young people's awareness of Child Trust Funds

4.6 Some 84% of CTF accounts received no payments in the year to April 2021 and, at that date, 45% of matured CTFs had not been claimed.[13] HMRC and CTF providers do not know which of these account holders are choosing not to claim their matured CTF, and which have lost track of their CTF. CTF accounts that were set up by HMRC, without the parent or guardian in charge of managing it being actively involved, are inherently at higher risk of becoming forgotten or lost track of by the account holders compared with other savings and investment accounts. The risk is greater for children and young adults from low-income families, who were more likely to have their accounts set up by HMRC. TISA told us that some providers assess that they have lost contact with CTF account holders at a higher rate than with customers for most other investment and savings products, based mainly on the number of letters posted to account holders that are returned because the named person no longer lives at the address the providers hold.

4.7 A March 2019 YouGov survey found that one in six parents of children aged 8 to 16 were not aware of the CTF scheme and among those who had used the HMRC voucher to open a CTF for their child, one in five did not know which CTF provider held their child's CTF.[14] In March 2020, The Share Foundation used data from one provider, relating to 82,399 CTFs that had been opened by HMRC on behalf of children, to estimate how many CTF account holders were unaware of their accounts. It counted an account in this category if the provider had received letters returned to it because the child's parent or guardian no longer lived at the address, or if the child's parent or guardian had never contacted the provider. The Share Foundation told us that, from its analysis, it concluded that 86% of these CTF account holders were unaware of their accounts (36% no longer lived at the address in the provider's records and 50% had never had contact with the provider).

4.8 HMRC has an online tool, available since at least 2013, that young people can use to check if they have a CTF, and if so, which CTF provider it is held with. In July 2020, after research to understand users' experience of using the tool, HMRC reduced the identity verification requirements, enabling young adults who may not have passports or driving licences to trace their CTFs. HMRC's data show that, between 1 April 2022 and 9 December 2022, around 235,000 enquiries were made through the online tool. HMRC does not collect data on how many enquiries to the online tool lead to young people successfully tracing their accounts.

13 These data are based on annual returns from 41 CTF providers. HMRC does not have equivalent data from another 14 active CTF providers.

14 V Waldersee, *Could your child have thousands of pounds in a government fund you're not aware of?*, YouGov, 13 March 2019.

4.9 In 2019, HMRC began to alert 15-year-olds to the possibility that they could have a CTF account in the National Insurance number notification letter it sends to children as they approach the age of 16. In autumn 2020, HMRC undertook some CTF publicity that included providing communications material for CTF providers and other stakeholders, including the government's Money and Pensions Service, to use to raise awareness of CTFs. HMRC paused some of this activity in November 2020 because of the COVID-19 pandemic, although social media posts continued until summer 2022. It told us it intends to incorporate CTFs into its communications campaign in 2023.

4.10 Some CTF providers and other organisations involved with CTFs are working independently from HMRC to help CTF account holders identify which provider holds their account. The Tracing Group (a commercial service for tracing the owners of dormant accounts), a group of providers and The Share Foundation have collaborated to create their own alternative list of CTFs – the Child Trust Fund Register – hosted by the Tracing Group. This register only contains data for accounts from these providers, and only for accounts where the account holder is at least 15 years old. It includes about 60% of all CTF accounts belonging to these young adults. Young people aged 16 or older can check the register for the details of their CTF using an online tool available on The Share Foundation website. There is no charge to these young people for using this service. CTF providers pay the Tracing Group a fee to use this service. We were told that, for data protection reasons, providers cannot attempt to trace account holders by accessing data held in HMRC's CTF register, which includes CTFs across most providers.

The future of the Child Trust Fund scheme

Unclaimed Child Trust Funds

4.11 HMRC told us it is developing a strategy for what will happen with CTFs that remain unclaimed several years after maturity. It is considering working more closely with CTF providers in the longer term to actively trace account holders. However, it judges that it is still too early in the scheme to begin this level of intervention.

4.12 The Dormant Assets Scheme enables dormant financial assets, where there has been no customer-initiated activity for a set number of years, to be distributed for the benefit of the community, while protecting the rights of owners to reclaim their money. For example, dormant bank and building society accounts can be transferred into the scheme after 15 years of inactivity. In time, some matured CTFs are likely to be transferred into the scheme, but to date none have been. The scheme is voluntary, which means that some CTF providers may not be members of the scheme.

Young adults lacking mental capacity

4.13 The Ministry of Justice (MoJ) told us that it is not possible to identify how many young people lack the capacity to manage their own CTF when they reach the age of 18 but it estimates that between 63,000 and 126,000 CTF account holders may be affected. In general, families must apply to the Court of Protection for legal authority to access and manage the assets of a young person who lacks mental capacity through a deputyship order. The application can be made before the young person reaches the age of 18. Deputyship orders generally relate to managing all of a young person's finances, not just their CTF. Some families of young people who do not have the capacity to manage their own CTFs 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. MoJ has also run an awareness event for parents and carers of children approaching 18 years old and developed materials to support parents making applications to access matured CTFs.

4.14 At the end of 2020, some CTF providers introduced a process, at their own risk, to allow carers 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. MoJ told us that such an approach circumvents the Mental Capacity Act and does not have consistent or formal safeguards for vulnerable individuals.[15] In November 2021, the government started an eight-week consultation on the feasibility of a small payments scheme that would allow families and carers of adults without capacity to access funds, including CTFs, up to £2,500 without the need to apply to the Court of Protection. The consultation also asked questions about the challenges faced by those navigating the current processes. In February 2023, the government published its response to the consultation. The government stated, in its response, that it will not take forward a new scheme but will instead focus on improving the process for applying to the Court of Protection and raising awareness of the Mental Capacity Act (2005).

15 *Mental Health Capacity Act 2005*, Mental Health Capacity Act 2005 (legislation.gov.uk), accessed 21 February 2022.

Evaluating the Child Trust Fund scheme

4.15 The CTF 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.

4.16 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. The data do not currently exist to support a new evaluation of the scheme against its original objectives. Although HMRC collects data annually on all CTF accounts, including their market value and the value of any payments received, it cannot identify which accounts received additional government payments, nor which accounts it opened directly on behalf of some children. This means that, without commissioning additional data collection, it cannot analyse how groups of young adults targeted by the scheme, for example those from low-income families, were affected by it. HMRC told us it has no plans to commission additional data collection. HMRC also does not hold information on any financial education for children that has taken place around the scheme.

Appendix One

Our investigative approach

Scope

1 We investigated the Child Trust Fund (CTF) scheme set up by HM Revenue & Customs (HMRC). We focused on the creation and implementation of the scheme; the scheme from 2005 to 2012, when most accounts were opened; and the current understanding of the scheme. We looked at HMRC's monitoring of the programme; the governance structures in place for monitoring CTF providers and accounts; and what HMRC has done to make sure children and their families were aware of the scheme and their money. The CTF scheme is UK-wide. We looked at actions and payments in relation to the scheme which applied across the UK, and in England, but not at additional actions taken, or payments made, by the devolved administrations.

2 Although the focus of this investigation was what HMRC has done in respect of CTFs, we also engaged with the Department for Education (DfE) and the Ministry of Justice (MoJ), as both are involved to a lesser degree in the scheme. In addition, we spoke with: The Share Foundation, which, through DfE, has the contract to manage the accounts of children in local authority care; the Investing and Savings Alliance (TISA), which represents a number of CTF providers; and the Tracing Group (a commercial service for tracing the owners of dormant accounts).

3 We conducted our fieldwork between November 2022 and February 2023.

Methods

4 In investigating, we drew on several evidence sources.

Interviews

5 We carried out ten interviews with HMRC, DfE, MoJ, The Share Foundation, TISA and the Tracing Group. We focused on:

- the history of the CTF scheme;
- continuing work on the scheme;
- the data available on the scheme;

- the management of the accounts of children in the care of local authorities;
- the management of accounts and their access for individuals without the capacity to manage their own accounts; and
- the role of third parties in re-linking CTF account holders to their accounts.

6 All interviews took place online and we shared notes with participants to confirm that we had captured information correctly. To identify and select interviews, we followed our contacts' advice on who held the most relevant knowledge to assist with our investigation.

7 We did not interview financial institutions that provide CTFs, account holders or families of account holders.

Document review

8 We reviewed key documents to provide information on how HMRC set up the CTF scheme; the work of the scheme from 2005 to 2012; and the status of the scheme.

9 HMRC, and the other departments and bodies we spoke with, provided documents relating to the scheme, which we reviewed. We also reviewed publicly available information including HMRC documents from 2014 and earlier, now held by the National Archives.

10 The documents we reviewed included the following.

- The initial proposals for the scheme.
- Legislation affecting CTFs.
- Guidance for CTF account holders, parents and guardians, CTF providers and local authorities.
- Statistical reports.
- An evaluation of the scheme.
- Management information from DfE about the CTF accounts of children in local authority care, allowing analysis of whether this group's experience of the scheme has been different from the experiences of children who remained with their parent or guardian.
- MoJ documents and media articles about access to CTFs for young adults lacking mental capacity.

Quantitative analysis

11 We analysed data to help us understand the scheme in terms of the number of accounts at various stages during the lifetime of the scheme and the volume of payments into CTFs by the government, parents and guardians, and others.

12 All financial data in this report, unless stated, are presented in cash (nominal) terms.

13 We analysed data from several sources. The data gave us an understanding of how the scheme had worked throughout its existence and how the value of and number of accounts had changed over time. The data included the following.

- HMRC statistics published between 2006 and 2013, available in the National Archives. These data covered the earlier phases of the CTF scheme, including facts such as the number of accounts which had been opened within a particular tax year and the number of children entitled to additional government payments.
- Statistics on CTFs as at April 2021, published by HMRC in June 2022, and statistics on CTFs as at April 2020, published by HMRC in 2021. These data provided a more up-to-date picture of the scheme.
- Summary data and estimates about CTFs provided to us by The Share Foundation, the Investing and Saving Alliance (TISA) and the Tracing Group. We have not seen the original data or reviewed the underlying calculations. We did not quality-assure their analysis.
- The most recent administrative data available from HMRC on accounts and CTF providers.

14 We used two HMRC datasets to find the number of CTF providers, the number of accounts held by each, and the value of those accounts in total. The first dataset, on which HMRC's June 2022 statistical release was based, had 47 entries for providers managing at least one CTF account in April 2021 (the most recent data in the series) and 74 for providers active in April 2011 (the earliest data in the series). The second dataset, used for compliance, had 59 entries for providers which were known to HMRC in the months up to February 2023 because they were active in the CTF market. We categorised the providers to produce the summarised data in Figures 7, 8 and 9. Our categorisation was judgement-based, informed by publicly available information. Key sources included providers' websites and the Prudential Regulation Authority's lists of financial institutions by type, including lists of building societies and credit unions, available at: www.bankofengland.co.uk/prudential-regulation/authorisations/which-firms-does-the-pra-regulate.

15 We estimated the number of CTF providers using the compliance team dataset and checked the results against the statistical release dataset. In both datasets, some providers were split into several entries because of past mergers and CTF book transfers. We reconciled the two lists, checked them against publicly available information on providers, and removed duplicates when a single provider had been included more than once.

16 In the annual statistical release HMRC published in 2013, it reported that as at 5 April 2011, it had approved 69 CTF providers. It has not retained the analysis supporting this statistical release. Therefore, we have not been able to identify the reasons why this figure differs from our estimate that 74 providers were active in April 2011.

17 We reported on the number of CTFs managed by different categories of CTF provider, and the total market value of CTFs managed by these groups, based only on the first dataset (containing 47 unique entries, representing 41 providers). This means 14 providers are not included in this analysis. April 2021 data on these 14 providers are not available because they did not submit data returns in 2021, while another provider submitted a partial return. Therefore, the number of accounts they hold, and those accounts' value, is not known. Because of these data gaps, we estimate the total market value of all CTFs may be understated by around £0.4 billion.

18 As the scheme has existed for close to 20 years, there are other limitations affecting the data.

- HMRC's data retention policy and implementation of GDPR means it no longer has the underlying data from its publicly available statistical releases on CTFs covering 2006 to 2012.
- HMRC provided us with data on the scheme for the period when it did not publish statistical returns. It told us that these data had been checked for duplications, but not checked for any other corrections needed. We are aware of weaknesses in the data due to some missing returns or possible errors from CTF providers.

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