

Summary: Intervention & Options

Department /Agency: DCSF	Title: Impact Assessment of Child Trust Fund Top Ups for Looked After children	
Stage: Options	Version: 1	Date: 06/12/07
Related Publications: Care Matters: Time for change - sets out Government's commitment		

Available to view or download at:

<http://www.dfes.gov.uk/publications/timeforchange/>

Contact for enquiries: Nicola Edwards

Telephone: 020 7273 5152

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

Children in care often receive insufficient financial support upon entering adult life, this means they are less likely to be able to afford to access further or higher education. Looked after children are likely to have lower savings and reduced access to future income compared to children not in care, so government should intervene to ensure children in care are not financially constrained and can participate in continued education. Children in care are also under-represented in further and higher education, which helps justify improving their life chances on equity grounds.

What are the policy objectives and the intended effects?

The Government proposes to top up the CTF of every looked after child with an additional £100 per annum for each year that the child spends in care. This will provide a significant additional asset that the child can access on reaching the age of 18. This asset could support a young person in further or higher education.

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

1. HMRC- led option - use secondary legislation to make sure that additional funds are deposited directly by Her Majesty's Revenue and Customs (HMRC) into the CTF accounts of looked after children using information provided by local authorities.
2. LA-led option - use statutory guidance to allow LAs manage the process locally using the information that they already hold. Wales already delivering top ups this way; the approach offers the best value for money, it reinforces the LA corporate parent role and allows local flexibility. Needs Devolved Administration agreement to pursue this option.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Full economic impact can only be reviewed in 2020. The Government will review the effectiveness of the payment route in 2010.

Ministerial Sign-off For SELECT STAGE Impact Assessments:

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

Signed by the responsible Minister:



Date:

19/12/08

Summary: Analysis & Evidence

Policy Option:	Description:
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COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' £100 payment into CTFs. LAs are funded to administer payments. LA-led option: 1.5 hours of admin time in the first year and 1.0 hours for subsequent years a child is in care. HMRC option: 1.0 hours for first year in care and 45 mins for subsequent years. HMRC scheme requires additional IT set up costs. The average annual costs shown here are 1 st year costs.
	One-off (Transition)	Yrs	
	£ 2m - HMRC	1	
	Average Annual Cost (excluding one-off)		
	£ 580k HM/£280k LA		
Total Cost (PV)			Not estimated
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' Not realised until 2020 when first CTFs mature. Will depend on numbers of years a child spends being looked after, other investments made on their behalf and interest rates. For LA option in first year will need 7 men to gain Level 4, who would previously have attained level 3, to achieve value for money
	One-off	Yrs	
	£ not known		
	Average Annual Benefit (excluding one-off)		
	£ not known		
Total Benefit (PV)			£ not known
Other key non-monetised benefits by 'main affected groups' Increased financial literacy; understanding principle of saving; options to pursue further or higher education or other lifestyle choice.			

Key Assumptions/Sensitivities/Risks Government funding will continue. LAs will undertake task as required. Children gain sufficient financial literacy skills to ensure they put CTF to good use. There is a risk that the delivery options will produce different benefit outcomes, due to different error rates.

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £ Not estimated
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What is the geographic coverage of the policy/option?		UK			
On what date will the policy be implemented?		1 April 2008			
Which organisation(s) will enforce the policy?		LAs/ HMRC			
What is the total annual cost of enforcement for these organisations?		£ 2.5k HM/ 280k LA			
Does enforcement comply with Hampton principles?		Yes			
Will implementation go beyond minimum EU requirements?		N/A			
What is the value of the proposed offsetting measure per year?		£ 0			
What is the value of changes in greenhouse gas emissions?		£ 0			
Will the proposal have a significant impact on competition?		No			
Annual cost (£-£) per organisation (excluding one-off)		Micro	Small	Medium	Large
Are any of these organisations exempt?		Yes/No	Yes/No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)		(Increase - Decrease)	
Increase of	Decrease of	Net Impact	£

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

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

The Government's Commitment

The Government announced in October 2006 that it would provide an extra £100 per year to every child in the UK who spends the year in care, in order that their Child Trust Fund (CTF) provides a more significant asset for them to access on entering adult life. The DCSF will fund all eligible children in the UK who have spent a year in care from 1 April 2007.

Local Authority Role in Managing Child Trust Funds of Looked After Children

Local authorities already have a statutory duty to provide some basic information to the Child Trust Fund Office (CTFO) about the looked after children in their care to ensure they receive their CTF account.

Options for Delivering the Child Trust Fund Top Ups

DCSF has considered two options for implementation:

HMRC System for Implementation

The first is for Her Majesty's Revenue and Customs (HMRC) to make payments into looked after children's (LAC) CTFs using information supplied by local authorities (LAs). HMRC has proposed a payment system which will result in HMRC, on the basis of monthly information already supplied by LAs, telling LAs the HMRC-held unique reference number (URN) of each new entrant to the care system. LAs will need to store this URN and use it to inform HMRC when they have assessed that a child has spent more than a year in care. HMRC will then top up the child's CTF appropriately.

HMRC would bring regulations into force by March 2008 to ensure that LAs supplied the necessary information. The regulations would cover the UK.

Local authority delivery route.

Alternatively LAs could manage the top-up payments themselves. LAs in Wales are already successfully implementing such a system. To make the process work, LAs would need to identify the LAC who have spent more than a year in care using their own monitoring procedures. The LA must then find out the child's CTF account number by either contacting the birth parent; contacting HMRC, who would provide the child's URN and details of the account provider – a potentially more complex procedure that will be required where the birth parent cannot be contacted or does not have the information; or, if the child has previously been in receipt of a top up, by consulting their own records.

In England, DCSF would set out the requirement to make the top up payment for LAC in statutory guidance. As the top ups are a national scheme it will be necessary to seek voluntary agreements from all the Devolved Administrations that their LAs will make payments.

Comparing the delivery options

The LA-led option involves more work for the LA but has the added advantage of reinforcing the corporate parenting role – in Wales some LAs have been encouraged to volunteer additional top ups to LAC CTFs of up to £100. Under either option LAs are having to undertake the majority of the work. The table below summarises the key elements of the process under both options.

LA- Led Delivery Option	HMRC – Led
LA sends new LAC entrant information to HMRC ↓	LA sends new LAC entrant information to HMRC ↓
	LA receives a unique reference number (URN) for new LAC entrant ↓
	LA stores URN ↓
LA monitors child's time in care ↓	LA monitors child's time in care ↓
When a child has spent a year in care the LA makes a £100 payment into the child's CTF. LA will need to contact either the birth parents to get a child's account details or contact HMRC to get a child's URN and provider details. In this case the LA will then need to contact the provider to get the CTF account details. Alternatively if a child has been in care before the LA will hold the CTF account details. ↓	LA completes a form / computer entry confirming the time a child is in care and sends form to HMRC.
LA stores child's account details.	

Advice and Consultation

The DCSF External Scrutiny Group and Service Working Group on Education and Children Services have both examined the options and provided advice as to the nature of burdens generated. The Service Working Group suggested that we increase local flexibility further so that LAs only make one overall payment into a child's CTF when that child leaves care. This would reduce burdens and costs further.

The advice of the Association of Directors of Children's Services Health Care and Additional Needs Committee has also been sought and they were very supportive of the LA-led option as they feel looked after children are the responsibility of the LA.

To implement nationally Ministers in the Offices for Wales, Scotland and Northern Ireland have also been consulted before approaching the appropriate Ministers in the Welsh Assembly Government, the Scottish Government and the Northern Ireland Executive.

Analysis of Costs

A table summarising all the costs for the next three years is set out below. The scheme has no determined end point and as any child born on or after 1 September 2002 is eligible, numbers of children receiving the top up will continue to increase until the scheme reaches steady state in 2020. A Child Trust Fund will mature when a child reaches 18 years of age. We cannot predict costs in 2020 and therefore costs for just the first year of the scheme have been used in the costs and benefit analyses. Figures for the 09/10 and 10/11 are set out in the table below.

HMRC has provided the costs for setting up the system they propose. A copy of their report is available on request. The figures referred to in the table above under 'Costs' are the administration costs for England, Scotland, Wales and Northern Ireland determined by projected numbers of eligible children. These figures are in the table below. They also included on-going

administration costs for HMRC. The actual £100 payments are not included in the costs section as these will have to be paid whichever delivery option is accepted. The costs in the table above have been derived from:

Annual costs – one off for HMRC option include £1.63m capital investment + £325k project define costs + £60k additional architecture costs = **£2m**

Average annual costs for HMRC option include Government gateway charges £300k + annual support charge £104k + HMRC administration costs £6k + LA administration costs for England and the Devolved Administrations £136k + £20 + £5 + £11k = **£582k**

For the LA – led option the costs cover £26k HMRC administration charges + LA administration costs for England and the Devolved Administrations £204k + £31k + £8k + £17k = **£286k**

These are the costs in the first year. They are likely to rise every year up until 2020 when the number of pupils receiving the top up will reach a steady state. This is because admin costs are directly proportional to the number of children receiving the top-up. Steady state top-up payments are likely to be around £4.4m, assuming there is a similar number of children in care in 2020 as there were in 2007. This figure is only indicative of the likely costs in the future and should not be taken as an explicit estimate of likely future costs. Steady state admin costs have not been estimated for the reasons mentioned above.

To determine LA administration costs under the two delivery options:

1. LA-led Option: For a new entrant we estimate the time to process the monitoring, finding out the account details and making a payment would be approximately 1.5 hours per child, 30 minutes for each stage of the process. For a child that spends more than one year in care this would drop to approximately 1 hour as the LA would hold the child's CTF account details. Local flexibility for implementation could reduce these timescales. These timings were discussed with and accepted by the Department's Sector Working Group on Education and Children's Services and were drawn from existing experience for implementing the scheme in Wales. We have determined the numbers of children that are likely to be eligible for the scheme in years 07/08, 08/09 and 09/10 in England 6149 in 07/08, 8767 in 08/09 and 10,449 in 09/10. The Welsh Assembly Government, the Scotland Government and Northern Ireland Executive estimated numbers of eligible children, and as a consequence, compliance or administration costs for their own Devolved Administration. LA compliance costs (which include salary, pensions and overheads such as office rent) are an estimate on the hourly burden for an average Local Authority in England. Hourly admin costs are estimated to be £22.12 per hour. This figure has been used to calculate the total admin costs, by multiplying the number of children receiving top-ups each year by the time spent administering the top-ups each year.

The compliance costs (which include salary, pensions and overheads such as office rent) are an accepted estimate on the hourly burden for an average Local Authority in England as provided by the Department's Statistical and Analysis colleagues.

2. HMRC-led Option: For a new entrant we estimate the time to store the URN, monitor a child's time in care and to inform HMRC when a child has spent a year in care would be 1 hour per child. For a child that spends more than one year in care this would drop to approximately 45 minutes as the LA would hold the child's URN.

CTF Top-Up Options: Comparative Costs Table for 07/08, 08/09, 09/10 and 10/11

Costs	HMRC 08/09	HMRC 09/10	HMRC 10/11	LA 08/09	LA 09/10	LA 10/11
Capital Investment	£1.63m +/- 40%					
Support charge	£104k	£104k	£104k			

	+/- 40%	+/-40%	+/-40%			
Define Stage: Admin Capital	£228k +/- 20% £97.5k					
Additional architecture costs**	<£60k					
Government Gateway	£300k	£300k	£300k			
HMRC Admin Personnel costs	£6k	£6k	£6k	£26k	£17k	£17k
English LA Administration Costs	£136k	£171k	£198k	£204k	£245k	£280k
English LA Top Up Costs	£615k	£877k	£1m	£615k	£877k	£1m
Total Scotland costs* Admin costs in ()	£93k (£20k)	£105k (£25k)	£125k (£30k)	£101k (£31k)	£111k (£37k)	£133k (£42k)
Total Northern Ireland costs Admin costs in ()	£29k (£5k)	£31k (£5k)	£33k (£5k)	£32k (£8k)	£33k (£7k)	£35k (£7k)
Total Wales costs Admin costs in ()	£61k (£11k)	£76k (£12k)	£92k (£15k)	£67k (£17k)	£82k (£18k)	£98k (£21k)
Total Costs: Admin Revenue	£398k +/-20%	£110k	£110k	£26k	£17k	£17k
Admin Capital	£1.7m +/- 40%	£0	£0	£0	£0	£0
Programme	£1.24m	£1.56m	£1.7m	£1m	£1.3m	£1.5m

Notes

- HMRC has said that all administrative costs are currently estimates. Others costs are subject to stated tolerances.
- **Late implementation will result in an additional review of implementation architecture
- LA Administration costs based on estimate of administration time required is 1 hour per child for HMRC-led route and 1.5 hours for LA-led route. Latter will decrease to an hour if the child has spent more than one year in care as LA will already hold records and the former will reduce to 45 minutes as the LA will not need to seek out a child's URN. DCSF will need to review funding premises and probably revise down in future years based on LA experience.
- Figures for Wales and Northern Ireland have been provided by those Devolved Administrations.
- *Confirmed figure for Scotland is not yet available. We have used the Barnett formula 10% allocation as an interim measure.

Benefit Analysis

Cost of improvement of outcomes

In the first year of the scheme, under the LA-led option, it will cost £280k. We have established that a man could potentially earn an additional £160k lifetime wage, a woman an additional £126k, with a level 4 qualification. In order to ensure the scheme achieves value for money this will mean that in the first year of the scheme 2 men born after 1 September 2002 will need to achieve a level 4 qualification (e.g. HE first degree) where they would previously have achieved a level 3 qualification (e.g. 2+ A levels or equivalent).

If we adopt the HMRC-led option the first year of the scheme will cost £580k annual + £2m one off. If the latter is spread over the first 10 years of the scheme then annual costs will be increased to £780k. We have established that a man could potentially earn an additional £160k lifetime wage, a woman an additional £126k, with a level 4 qualification. This will mean that in the first year of the scheme 5 men born after 1 September 2002 will need to achieve a level 4 qualification (e.g. HE first degree) where they would previously have achieved a level 3 qualification (e.g. 2+ A levels or equivalent).

In determining the likelihood of whether the policy will increase participation to this extent then some very basic comparisons could be drawn with the Education Maintenance Allowance. The EMAs have contributed to an increased participation rate of 2.8% points in 17 years old which would be the equivalent of 172 Looked After Children staying on. This analysis is only indicative of the likely positive effects on participation increasing the size of the trust funds will have as the policies are not aimed at entirely the same age groups and have different purposes. Pupils only receive the EMA when they attend education whereas trust funds don't have to be spent on education, they just make it potentially more affordable.

It is not easy to determine the financial benefits of recipients acquiring a savings habit and becoming more financially literate but they could potentially be large if recipients avoid debt.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	Yes/No	Yes/No
Small Firms Impact Test	Yes/No	Yes/No
Legal Aid	Yes/No	Yes/No
Sustainable Development	Yes/No	Yes/No
Carbon Assessment	Yes/No	Yes/No
Other Environment	Yes/No	Yes/No
Health Impact Assessment	Yes/No	Yes/No
Race Equality	Yes/No	Yes/No
Disability Equality	Yes/No	Yes/No
Gender Equality	Yes/No	Yes/No
Human Rights	Yes/No	Yes/No
Rural Proofing	Yes/No	Yes/No

Annexes

PROFORMA FOR A FULL EQUALITY IMPACT ASSESSMENT

Title

Child Trust Fund Top Ups

Description of the policy

The Government proposes to top up the CTF of every looked after child with an additional £100 per annum for each year that the child spends in care. This will provide a significant additional asset that the child can access on reaching the age of 18. This asset could support a young person in further or higher education.

The evidence base

Financial support for young people in care to enter adult life is highly variable between local authorities and relies on subjective judgements as to the level of support required. Young people told the DCSF that they think this is particularly unfair. Research from the National Leaving Care Advisory Service Benchmarking Forum Survey 2005, found that the most common weekly allowance paid across 52 leaving care teams was £42.70 and that the grant paid to young people on leaving care varied from £400 in some local authorities to as much as £2000 in others. The local authority is left to make a judgement as to the level of support required and young people do not always feel they get what they need.

The DCSF has sought the views of young people from organisations led by disabled children and young people, and they have expressed strong concern about the unfairness of the current system.

What the evidence shows – key facts

There are significantly more disabled children and young people in care than would be expected from their numbers in the general population. Also, there are more children and young people from African-Caribbean, African and mixed heritage backgrounds in care than would be expected from their numbers in the general population. This assessment is undertaken with the assumption that there will be no significant changes in the looked after children population.

Challenges and opportunities

If all looked after children benefit from the Child Trust Fund top ups policy then disabled children and young people, and children and young people from African-Caribbean, African and mixed heritage backgrounds will disproportionately benefit.

Equality impact assessment

An adverse impact is unlikely, and on the contrary the policy has the clear potential to have a positive impact by reducing and removing barriers and inequalities that currently exist.

Next steps

The policy will be monitored to ensure children are receiving payments. The first Child Trust Funds will not mature until 2020. It will be nearer that time that effective assessments of impact will be planned.

In addition, the Children and Young Persons Bill Equality Impact Assessment published in November 2007 made the commitment to undertake further work to enhance the information base in relation to equalities issues in the care system. This will include for example, developing more consistent, compatible and comparable data on disability on which to base service planning, commissioning and provision at both a local and national level; and the monitoring by ethnicity of children and young people looked after by friends and families.

LAs are required to carry out appropriate monitoring, and to take action accordingly.