EXPLANATORY MEMORANDUM TO

THE SAVING GATEWAY ACCOUNTS REGULATIONS 2009

2009 No

1. This Explanatory Memorandum has been prepared by H.M. Revenue and Customs and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Purpose of the instrument

2.1 The Regulations provide the administrative procedures for opening and managing Saving Gateway accounts, and for the payment of government contributions to account holders. They also set out some of the detailed features of Saving Gateway accounts, and requirements upon H.M. Revenue and Customs, account providers and account holders. These Regulations also contain provisions in relation to the approval of financial institutions to offer Saving Gateway accounts, and eligibility to hold a Saving Gateway account.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 No Commencement Order has yet been made to bring the Saving Gateway Accounts Act 2009 (which only received Royal Assent on 2nd July 2009) into force. These Regulations are made in reliance on section 13 of the Interpretation Act 1978 (anticipatory exercise of powers). A Commencement Order will be made when the precise starting date for Saving Gateway Accounts is known. The definition of "appointed day" in the Regulations refers to section 8 of the Act, simply as a central provision of the Act (compare section 26(5) of the Act, which similarly refers to section 6, but section 6 may be brought into force slightly early to allow for applications to open a Saving Gateway account).

4. Legislative Context

4.1 These Regulations set out the main features, processes and requirements in relation to Saving Gateway accounts, which the Government has announced will be available from 2010.

4.2 The Regulations are made under powers conferred by sections: 2(2) and (3); 3(1)(b), (5) and (6); 4 to 7; 8(1) and (4); 9 to 12; 16; 17; 24(4) and 28(1) and (2) of the Saving Gateway Accounts Act 2009. The Regulations are the first use of these powers since the Saving Gateway Accounts Bill received Royal Assent on 2 July 2009. Under the terms of section 28(4) and (7) of this Act, these Regulations are being made under the affirmative resolution procedure.

4.3 Separate regulations (The Saving Gateway Accounts No. 2 Regulations) will cover the tax treatment of Saving Gateway accounts. Regulations covering appeals on Saving Gateway matters in Northern Ireland will be made at a later date.

4.4 The Government has confirmed that the rules set out in these Regulations in relation to: (i) the circumstances in which accounts may be transferred between account providers (see regulation 19(1)), and (ii) the frequency with which account providers are required to issue statements to account holders (see regulation 12(1)); together with the absence of any requirement in these regulations for an account provider to pay interest on account balances, will not be changed without full consultation, including with account providers. *(House of Lords Hansard, 10 June 2009, Column 659).*

5. Territorial Extent and Application

5.1 This instrument applies to all of the United Kingdom.

6. European Convention on Human Rights

The Exchequer Secretary to the Treasury, Sarah McCarthy-Fry M.P, has made the following statement regarding Human Rights:

In my view the provisions of the draft Saving Gateway Accounts Regulations 2009 are compatible with the Convention rights.

7. Policy background

- ***What is being done and why***

7.1 The Government's objectives for the Saving Gateway are: to kick-start a saving habit among working age people on lower incomes by providing a strong incentive to save through a contribution for each pound saved; and to promote financial inclusion by encouraging people to engage with mainstream financial services.

The Government intends that Saving Gateway accounts will be provided by financial institutions, such as banks, building societies and credit unions. It estimates that around 8 million people will be eligible for a Saving Gateway account. Once a Saving Gateway account matures the account holder will be entitled to a government contribution, calculated at 50p for each whole pound in the highest qualifying balance achieved during the 24 month maturity period for the account.

The Saving Gateway Accounts Act 2009 provides for Saving Gateway accounts to be available to people who are entitled to certain benefits or tax credits and have the required connection with the UK. These Regulations are necessary to set out the detailed account features, rules and requirements for Saving Gateway Accounts.

- ***Consolidation***

7.2 Not appropriate to this instrument.

8. Consultation Outcome

8.1 The Government consulted on the principles of the Saving Gateway in 2001. In March 2008 it published a further consultation: '*The Saving Gateway: Operating a National Scheme'* in which it sought views on proposals for the operation and administration of a national Saving Gateway scheme. This consultation ran from 12 weeks from 12 March to 4 June.

8.2 In total 32 written responses were received to this consultation. In general respondents supported the objectives of the Saving Gateway and were positive about its potential to kick start a saving habit and promote financial inclusion. However, some respondents thought that some of the proposed account features and requirements might be simplified for account providers and account holders.

8.3 In response to points raised during the consultation, the Government has simplified its proposals in a number of areas. These include changes to earlier proposals in relation to: the payment of a return such as interest on balances held in Saving Gateway accounts; the circumstances in which accounts may be transferred between providers; the maximum total deposits that can be made into a Saving Gateway account; the method by which the government contribution earned by the account holder is calculated; the frequency with

which account statements must be issued to account holders; and the timescale for paying the government contribution to account holders.

8.4 Further details of the formal consultation, and of the responses received to this consultation, can be found in '*The Saving Gateway: operating a national scheme'* (March 2008) and *'The Saving Gateway: operating a national scheme, Summary of Responses'* (December 2008), both of which are available from the HM Treasury website.

8.5 As well as responses to the formal consultation, these Regulations take into account: the independent evaluation of the two Saving Gateway pilots that ran between 2002 and 2007; detailed customer research; and discussions with a range of interested bodies, including potential account providers, organisations working to tackle financial exclusion, and intermediary or advice giving bodies.

9. Guidance

9.1 H.M. Revenue and Customs are currently preparing detailed guidance for eligible persons, account providers and other interested bodies. This guidance will be the subject of informal consultation and user testing prior to its formal publication ahead of the launch of Saving Gateway accounts.

10. Impact

10.1 The impact on business, charities or voluntary bodies will depend upon whether they choose to offer Saving Gateway accounts, or offer advice on Saving Gateway accounts. There is no requirement upon any business, charity or voluntary body to participate in the Saving Gateway.

Account providers will incur costs in administering Saving Gateway accounts. However they will also benefit from the use of the funds deposited in Saving Gateway accounts, and from the commercial opportunities that a wider customer base will present. Charities or voluntary bodies may incur costs related to the advice they might provide to their clients on the Saving Gateway. Accurate assessments will require further evidence and consultation with potential providers and advice giving bodies.

10.2 The impact on the public sector is the cost to the Exchequer of the government contributions (or maturity payments) that will be earned by account holders, and the implementation and running costs for the scheme. The costs of maturity payments in 2010/11 and 2011/12 are negligible, as the government contributions on accounts opened in 2010 will not be payable until 2012/13.

Initial estimates of the expenditure on maturity payments from 2012/13 are: £130m in 2012/13, then £110m in 2013/14 and £100m in 2014/15. The Government expects the annual cost of maturity payments to fall to £60m per year in steady state. The expenditure in early years is higher because of the large number of people who will become eligible to open a Saving Gateway account when the scheme is introduced.

Estimates of implementation and running costs for the Saving Gateway were published in the Explanatory Notes to the Saving Gateway Accounts Bill as introduced in the House of Commons on 4 December 2008, and the figures for 2009-10 onwards are reproduced below.

2009/10	**2010/11**	**2011/12**	**2012/13**
£5.4m	£7.8m	£4.3m	£3.4m

In terms of the impact of the Saving Gateway upon public sector manpower, estimates published in the Explanatory Notes to the Bill are that there would be an increase above current plans of 129 full-time equivalent staff when the scheme is introduced in 2010, falling to an increase of 59 full-time equivalent staff when the scheme is in steady-state.

10.3 An Impact Assessment is attached to this memorandum.

11. Regulating small business

11.1 This legislation applies to small businesses to the extent that they choose to offer Saving Gateway accounts, or to advise on the Saving Gateway. There will be no requirement on any small business to participate in the Saving Gateway.

11.2 To minimise the impact of the requirements on firms employing up to 20 people, the approach taken is for H.M. Revenue and Customs and HM Treasury to continue to discuss operational processes for the scheme with potential providers and their representatives, and to consider any appropriate measures that would be consistent with the minimum requirements set down in these Regulations.

11.3 The basis for the final decision on what action to take to assist small business will be to ensure that any such action is consistent with the requirements for providers set out in these Regulations. These requirements are considered to be the minimum necessary for the effective operation and assurance of the Saving Gateway, and follow detailed consultation with a range of bodies, including representative bodies for smaller financial institutions such as credit unions.

12. Monitoring and Review

12.1 The Saving Gateway Accounts Act 2009 provides for independent review of the effect of the scheme on attitudes to saving, saving behaviour, involvement with financial institutions and other matters. A report setting set out the conclusions of this review will be presented to Parliament by HM Treasury within 7 years of section 6 of the Act coming into effect.

13. Contact

John McLoughlin of H.M Revenue and Customs, tel: 0207 147 2382 or email: john.mcloughlin@hmrc.gsi.gov.uk can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency:	Title:	
HM Treasury	**Impact Assessment of The Saving Gateway – Bill Introduction Stage**	
Stage: Bill introduction	**Version:** 2	**Date: 4 December 2008**
Related Publications: The Saving Gateway: operating a national scheme - March 2008.		

Available to view or download at: http://www.hm-treasury.gov.uk

Contact for enquiries: Miranda Worthington **Telephone:** 0207 270 4698

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

Savings are important in providing people with independence throughout their lives, security if things go wrong and comfort in retirement. The Government aims to provide appropriate and effective incentives to save for all, and to support people in making the right saving choices for themselves. The Government has introduced Individual Savings Accounts to develop and extend the saving habit and ensure a fairer distribution of tax relief. The Child Trust Fund, introduced in April 2005, seeks to promote saving and financial education and will ensure that in future all young people have a financial asset at the age of 18. Personal Accounts, for pension saving, will promote saving for retirement. The Saving Gateway will sit alongside these initiatives, and will offer an additional, targeted incentive to save for working age people on lower incomes.

What are the policy objectives and the intended effects?

The objectives of the Saving Gateway are to:

1. kick-start a saving habit among working age people on lower incomes by providing a strong incentive to save through a government contribution for each pound saved; and
2. promote financial inclusion by encouraging people to engage with mainstream financial services.

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

At Budget 2008, the Government announced that the Saving Gateway will be introduced nationally. Following this announcement, two options have been considered:

1. The Saving Gateway scheme proposed in *The Saving Gateway: operating a national scheme*, published in March 2008; and

2. A modified Saving Gateway scheme, reflecting responses to the document published earlier this year. This is the preferred option, as it provides a greater level of operational simplicity for both account holders and account providers.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? The scheme will be monitored as accounts become available from 2010, and its impact will be reviewed once sufficient evidence has been collected. Compliance costs are routinely reviewed after one to three years.

Ministerial Sign-off for Final Stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:



.....Date: 28th November 08

Summary: Analysis & Evidence

Policy Option – Option Two (Recommended Option)	Description: Saving Gateway scheme reflecting responses to *The Saving Gateway: operating a national scheme*

COSTS

ANNUAL COSTS	Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition) **Yrs**	HMRC's costs in setting up and running the scheme are estimated to be £20m over five years.
Average Annual Cost (excluding one-off)	**Total Cost** (PV)

Other **key non-monetised costs** by 'main affected groups' Account providers will incur costs in administering Saving Gateway accounts. Accurately estimating these costs will require further evidence and consultation with potential providers, and an update will be provided in a subsequent Impact Assessment.

BENEFITS

ANNUAL BENEFITS	Description and scale of **key monetised benefits** by 'main affected groups'
One-off **Yrs**	Account holders will receive a Government contribution of 50p for each pound saved in the scheme. The maximum Government contribution will be £300. The cost to the Government of providing this contribution is detailed in the Evidence section below.
Average Annual Benefit (excluding one-off)	**Total Benefit** (PV)

Other **key non-monetised benefits** by 'main affected groups' Providers will benefit from the use of the funds deposited in Saving Gateway accounts, and from an increased customer base. In addition to the Government contribution, the benefits for account holders will be in terms of developing a saving habit, building a stock of savings, and being brought into contact with mainstream financial services. These benefits are difficult to quantify, though we expect the total benefits to outweigh the total costs.

Key Assumptions/Sensitivities/Risks The benefits of the Saving Gateway are particularly difficult to monetise, although they are expected to be considerable over the longer term and should outweigh the costs. Accurately estimating the costs to account providers will require further evidence.

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

What is the geographic coverage of the policy/option?	UK wide
On what date will the policy be implemented?	2010
Which organisation(s) will enforce the policy?	HMRC
What is the total annual cost of enforcement for these organisations?	N/A
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?	N/A	N/A	N/A	N/A

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

Evidence Base (for summary sheets)

Issue and Policy Context

Savings are important in providing people with independence throughout their lives, security if things go wrong and comfort in retirement. Saving opportunities can also bring people into contact with mainstream financial services, helping to promote financial inclusion.

Since 1997, the Government has aimed to support saving and asset ownership for all from childhood, through working life and into retirement. The Government has introduced Individual Savings Accounts (ISAs) to develop and extend the saving habit and ensure a fairer distribution of tax relief. The Child Trust Fund (CTF), introduced in April 2005, seeks to promote saving and financial education and will ensure that in future all young people have a financial asset at the age of 18. Personal Accounts, for pension saving, will promote saving for retirement. The Saving Gateway will sit alongside these initiatives, to promote saving for working age people on lower incomes.

Policy Objectives and Intended effects

The Saving Gateway is a cash saving scheme, which will be offered through a range of financial institutions such as banks, building societies and credit unions. To provide a strong incentive to save, the Government will contribute 50p for each pound that account holders save in the scheme.

The objectives of the Saving Gateway are to:

- kick-start a saving habit among working age people on lower incomes by providing a strong incentive to save through a government contribution for each pound saved; and
- promote financial inclusion by encouraging people to engage with mainstream financial services.

The Government has consulted on the Saving Gateway twice:

- *Savings and Assets for All: The Modernisation of Britain's Tax and Benefit System*, No. 8, April 2001;
- *Delivering Saving and Assets: The Modernisation of Britain's Tax and Benefit System,* No. 9, November 2001

In March 2008, the Government also published *The Saving Gateway: Operating a National Scheme*, a document seeking views on the operation and administration of a national scheme.

These documents are available on the HM Treasury website (www.hm-treasury.gov.uk).

The Saving Gateway has been piloted twice to explore the effectiveness of a Government contribution as an incentive to save, and to test various account features. The full reports of these pilots are available from the HM Treasury website.

- *Incentives to save: encouraging saving among low-income households,* Bristol University – Personal Finance Research Centre, March 2005; and
- *Final evaluation of the Saving Gateway 2 Pilot: Main Report,* Institute for Fiscal Studies & Ipsos MORI Social Research Institute, May 2007.

Policy Options

In March 2008, the Government announced that the Saving Gateway would be introduced nationally, with the first accounts available to savers in 2010. Following this announcement, two models for the Saving Gateway scheme have been considered:

- **Option One**: The Saving Gateway as proposed in *'The Saving Gateway: operating a national scheme*', in March 2008; and

- **Option Two**: A modified Saving Gateway scheme, reflecting responses to the document published earlier this year. **This is the preferred option.**

Option One - Saving Gateway as proposed in March 2008

The document published in March 2008 set out that eligibility for the Saving Gateway would be based on entitlement to certain benefits and tax credits. Saving Gateway accounts would be cash-based, would be offered to savers through a range of financial institutions such as banks, building societies and credit unions, and account holders would be permitted to withdraw their savings at any time. The Government would offer a contribution for each pound saved in the scheme, up to a monthly limit. This 'match payment' would be paid to the account holder by the account provider, who would then claim the money from HMRC, once the account came to an end after two years. The account balance would then be transferred to a default, interest-bearing saving account, such as an ISA.

It was also proposed that:

- account providers would be required to pay a return, in addition to the match payment, on account balances;
- account providers would be required to issue statements to Saving Gateway account holders at least quarterly;
- there would be a monthly limit of deposits which the Government would match, which the Government was minded to set at £25, but deposits above this limit would be permitted; and
- account providers would pay the Government contribution to account holders within a certain time period after the end of the account, and then claim reimbursement from HMRC.

An Impact Assessment for this model was prepared and published on 12 March 2008 as part of *The Saving Gateway: operating a national scheme*, which is available from the HM Treasury website at www.hm-treasury.gov.uk.

Option Two - A modified Saving Gateway scheme, reflecting responses to the document published earlier this year

This is the preferred option and is reflected in the Saving Gateway Accounts Bill. It will also be reflected in draft Saving Gateway Accounts Regulations, which will be published early in 2009.

While the central characteristics of the Saving Gateway remain the same as those set out in the document published earlier this year, the Government has carefully considered the responses to that document, and has conducted a number of discussions with interested stakeholders.

As a result, Option Two differs from Option One in the following ways:

- account providers will not be required to pay a return, in addition to the match payment, on balances held in Saving Gateway accounts;
- the maximum deposit into Saving Gateway accounts will be £25 per month;
- the calculation of the Government contribution has been simplified;
- account providers will not be required to provide statements to account holders quarterly. The Government proposes that statements will be provided six-monthly;
- account providers will be required to pay match payments to account holders within a certain time period after the end of the account, but will be able to receive the match payment from HMRC before paying account holders; and
- if an account holder chooses to roll their balance into an ISA at maturity, it will be treated as a previous year transfer.

Benefits and Costs

A consultation stage Impact Assessment for Option One was published on 12 March 2008 as part of *The Saving Gateway: operating a national scheme*, which is available at www.hm-treasury.gov.uk. The remaining analysis in this Impact Assessment therefore focuses on the preferred option, Option Two.

Benefits and Costs for account holders

The estimated eligible population for the Saving Gateway in the first year of operation is around 8 million individuals. In each subsequent year of the scheme, approximately 1.8m additional individuals are expected to become eligible for Saving Gateway accounts. The Government's estimate is that around 20 per cent of eligible people will open a Saving Gateway account within three years of becoming eligible.

These individuals will benefit from the Government contribution at 50p for each pound saved in the scheme. An account holder who deposits the maximum £25 per month into their account in each month, and makes no withdrawals, will build up a Government contribution of £300 by the end of the account.

The Saving Gateway is also expected to help kick-start a saving habit among working age people on lower incomes, and promote financial inclusion. These benefits are difficult to monetise, but are expected to be significant over the longer term.

The cost to the Saving Gateway account holder will be negligible, consisting primarily of the time spent opening and operating their accounts.

Benefits and Costs for account providers

Account providers will benefit from the use of the funds deposited in Saving Gateway accounts, and from an increased customer base.

Account providers will incur costs in setting up and operating Saving Gateway accounts. Accurately estimating these costs will require further evidence from potential providers. An update will be provided in a subsequent Impact Assessment.

It is anticipated that a range of financial institutions will apply for approval to provide Saving Gateway accounts, including banks, building societies and credit unions. Saving Gateway accounts will also be available through the Post Office.

Benefits and Costs to Government

The Government will contribute 50p for each pound saved in the Saving Gateway scheme. This will be paid after Saving Gateway accounts have ended, after two years. The maximum Government contribution an account holder will be able to build up will be £300.

Based on the estimated take up outlined above, the Government's estimates are that Government contributions will total £130m in 2012-13; £110m in 2013-14; and £100m in 2014-15. Government contributions are expected to fall to £60m per year in steady state.

It is estimated that the scheme will cost HMRC around £20m over five years, between 2008-09 and 2012-13, to set up and operate.

Implementation Plan

Subject to Parliamentary approval of the Saving Gateway Accounts Bill and Saving Gateway Accounts Regulations, the first Saving Gateway accounts will be available to savers from 2010. A further announcement on introduction will be made in due course and reflected in a subsequent Impact Assessment.

This Impact Assessment is published alongside the Saving Gateway Accounts Bill. The Government will also publish draft Saving Gateway Accounts Regulations early in 2009.

Specific Impacts

Competition Assessment

The Saving Gateway scheme is not expected to have any material impact on competition. All appropriately regulated institutions that meet standard requirements will be able to apply for approval to offer Saving Gateway accounts. Any update of this assessment will be provided in a subsequent Impact Assessment.

Small Firms Impact Test

Many small financial institutions will be able to apply for approval to provide Saving Gateway accounts, should they choose to do so. The Government expects that a number of small providers, including credit unions, will wish to offer Saving Gateway accounts.

Assessment of Legal Aid/Sustainable Development/Carbon/Other Environmental/Health Impacts

No impact is anticipated from the implementation of the Saving Gateway.

Race Equality

The Saving Gateway is available to all savers that meet an objective criteria of entitlement to one of the qualifying benefits or tax credits. There is no race equality impact anticipated from the implementation of the Saving Gateway.

Disability Equality

The Saving Gateway is available to all savers that meet an objective criteria of entitlement to one of the qualifying benefits or tax credits. The qualifying benefits include Severe Disablement Allowance, Incapacity Benefit and Employment Support Allowance.

Gender Equality

The Saving Gateway is available to all savers that meet an objective criteria of entitlement to one of the qualifying benefits or tax credits. There is no gender equality impact anticipated from the implementation of the Saving Gateway.

Human Rights

The provisions of the Saving Gateway Accounts Bill are compatible with ECHR rights.

Rural Proofing

The Saving Gateway is available to all savers that meet an objective criteria of entitlement to one of the qualifying benefits or tax credits, regardless of their location within the UK.

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
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No