



House of Commons  
Treasury Committee

---

**Unclaimed assets  
within the financial  
system: Government  
Response to the  
Committee's Eleventh  
Report of Session  
2006–07**

---

**Eighth Special Report of Session  
2006–07**

*Ordered by The House of Commons  
to be printed 9 October 2007*

**HC 1028**  
Published on 15 October 2007  
by authority of the House of Commons  
London: The Stationery Office Limited  
£0.00

## The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue & Customs and associated public bodies.

### Current membership

Rt Hon John McFall MP (*Labour, West Dunbartonshire*) (Chairman)  
Mr Graham Brady MP (*Conservative, Altrincham and Sale West*)  
Mr Colin Breed MP (*Liberal Democrat, South East Cornwall*)  
Jim Cousins MP (*Labour, Newcastle upon Tyne Central*)  
Mr Philip Dunne MP (*Conservative, Ludlow*)  
Angela Eagle MP (*Labour, Wallasey*)  
Mr Michael Fallon MP (*Conservative, Sevenoaks*) (Chairman, Sub-Committee)  
Ms Sally Keeble MP (*Labour, Northampton North*)  
Mr Andrew Love MP (*Labour, Edmonton*)  
Mr George Mudie MP (*Labour, Leeds East*)  
Mr Siôn Simon MP, (*Labour, Birmingham, Erdington*)  
John Thurso MP (*Liberal Democrat, Caithness, Sutherland and Easter Ross*)  
Mr Mark Todd MP (*Labour, South Derbyshire*)  
Peter Viggers MP (*Conservative, Gosport*)

### Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No. 152. These are available on the Internet via [www.parliament.uk](http://www.parliament.uk).

### Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at [www.parliament.uk/treascom](http://www.parliament.uk/treascom)

### Committee staff

The current staff of the Committee are Colin Lee (Clerk), Fiona McLean (Second Clerk and Clerk of the Sub-Committee), Adam Wales, Jon Young, Anna Leach and Jay Sheth (Committee Specialists), Lis McCracken (Committee Assistant), Michelle Edney (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

### Contacts

All correspondence should be addressed to the Clerks of the Treasury Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5769; the Committee's email address is [treascom@parliament.uk](mailto:treascom@parliament.uk)

# Eighth Special Report

---

The Treasury Committee published its Eleventh Report of Session 2006–07, *Unclaimed assets within the financial system*, on 6 August 2007, as House of Commons Paper No. 533. The Government response to this Report was received on 8 October 2007, and is appended below.

## Government response

---

### Introduction

This is the Government's response to the Treasury Committee's report, *Unclaimed assets within the financial system*, published on 3 August 2007. The Government welcomes the report, which is an important contribution to its work with the banking and building society sector to deliver an unclaimed assets scheme in the UK.

The Government remains committed to designing a scheme that preserves the rights of the individual consumer and at the same time allows genuinely dormant accounts to be used for good causes in the community. As set out in the Prime Minister's legislative programme speech to Parliament on 11 July 2007, the Government will shortly introduce legislation setting out in detail the provisions that it believes necessary to deliver a UK unclaimed assets scheme. A summary of the Government's draft legislative programme is available at the following website address:

<http://www.cabinetoffice.gov.uk/publications/reports/governance/governance.pdf>

The Government welcomes the banking and building society sector's ongoing commitment to making the scheme a success. It looks forward to statements from the banking industry's representative bodies in response to specific recommendations by the Committee in due course, giving fuller details of how the industry will participate in the scheme.

### The proposed legislative framework

**1. We welcome the Government's commitment to legislate to facilitate the use of unclaimed assets for the public good. However, we are unconvinced that the Government is correct to pursue a voluntary approach. A compulsory scheme has the overwhelming advantage of guaranteeing fairness and consistency between institutions. We urge the Government to reconsider the voluntary basis of its proposals. If the Government is still minded to continue with a voluntary scheme, we recommend that the forthcoming legislation be prepared so as to include reserve powers for Ministers to establish a compulsory scheme at a later date without recourse to further primary legislation, should a voluntary scheme prove unsuccessful. If a voluntary scheme is established, we recommend that the Government put in place arrangements to ensure information about institutions that are, and are not, participating in the scheme is publicly available. (Paragraph 13)**

As set out in HM Treasury's consultation document, A UK Unclaimed Assets Scheme (March 2007), the Government is proposing legislation that will establish an unclaimed assets scheme. The scheme will be voluntary for all banks and building societies, so there is a level-playing field for these institutions. The Government is not proposing to treat different parts of the banking and building society sector differently.

The banking and building society sectors are committed to participating in the scheme, and reiterated strong support for the scheme during their evidence sessions with the Treasury Select Committee earlier this year.

There are clear advantages in a voluntary approach over a compulsory one. A voluntary approach enables the use of private sector expertise to manage and invest the money paid to the reclaim fund by banks and building societies. A voluntary approach means that it will be the private sector that takes responsibility for managing liabilities to account holders, which will remain on the private sector's balance sheet.

The voluntary approach brings added flexibility. It will allow individual institutions to determine whether an account is genuinely dormant. Only genuinely unclaimed accounts will therefore be transferred into the scheme. As a result, the UK scheme will be less rigid than many other international schemes, helping to reduce unnecessary administrative costs. A voluntary scheme also takes account of better regulation principles, building on existing regulatory arrangements, helping to maximise the money available for reinvestment in the community.

In light of the sector's ongoing support for a voluntary scheme, the Government does not propose to include reserve powers to establish a compulsory scheme at this time. It is not the Government's intention to take substantial reserve powers that it does not currently believe to be necessary. Including these powers in legislation would not be a good use of Parliament's time.

Under the proposed legislation the central reclaim fund will publish a list of institutions that are participating in the main scheme, and also the value of amounts transferred into the scheme by individual institutions, and the amounts reclaimed by consumers, and the total amount transferred to BIG for distribution. In addition, the Banking Code provisions relating to unclaimed assets will be expanded to reflect key elements of the scheme. The revised Code will require institutions to publish their policies on how they intend to participate in the scheme.

**2. We welcome the Government's commitment to grant customers a legal right to their account funds in perpetuity. We also support proposals to maintain the customer interface with the customer's own bank or building society, rather than with the proposed Central Reclaim Fund, and we expect the scheme to be designed to ensure that customers will not face any additional inconvenience as a result of the scheme if they try to reactivate a dormant account. We are unconvinced that the Banking Code Standards Board has the proven track record of protecting the interests of consumers and sufficient independent authority to enable it to take the proportionate but firm action that might be necessary to regulate the scheme. If the Government is minded to leave regulation in the remit of the Banking Code Standards Board, we recommend that the legislation includes power for regulatory responsibility to be given to a**

**statutory regulator in the future without the need for further primary legislation. Finally, we recommend that, in its response to this Report, the Government clarify the circumstances in which disputes relating to the scheme could be considered by the Financial Ombudsman Service. (Paragraph 19)**

Consumer protection is a central principle of the Government's proposed scheme. Consumers will retain the right to reclaim their money at any time. It is intended that account holders will experience no practical difference in the way they are treated as a result of the scheme.

An independent review of the Banking Code is currently underway. HM Treasury has actively engaged in the review, and has underlined the importance of revising the Banking Code to take account of the unclaimed assets scheme. It welcomes the commitment of the industry to updating the Code to reflect the proposed scheme. Under the revised Code, it is expected that the key commitments on unclaimed assets will include that: customers will continue to use their own bank or building society as the means to reclaim money; all customers will be treated equivalently whether or not their money has been transferred into the scheme; and banks and building societies will inform their customers about the scheme, including publishing their policies for treating accounts as dormant. The existing ten core pledges under which the banks and building societies operate will also be built into the Code. These changes are designed to ensure that banks and building societies will take care to explain the scheme to their customers, and treat dormant account holders fairly, equivalent to any other customer.

The updated provisions in the Banking Code are only one element of the framework proposed by the Government, which also includes legislation to establish a statutory right for consumers to reclaim their money from the reclaim fund at any time; FSA authorisation of the reclaim fund, which will also bring the reclaim fund within the Financial Services Compensation Scheme (FSCS); and consumers' right of access to the Financial Ombudsman Service (FOS) in the event of disputes.

The Government's proposals build on the existing regulatory framework, in line with better regulation principles. This will help to minimise costs and maximise money available for reinvestment in the community. The changes to the Banking Code are entirely in keeping with the Code's existing consumer protection role. These changes will be applicable from March 2008.

The Banking Code Standards Board (BCSB) enforces the Codes. It has powers to ensure compliance through compliance visits, mystery shopping and formal investigations. Ultimately, the BCSB has powers to issue public directions, recommend compensation for customers, and cancel a bank's registration with the Codes.

If in the future it is evident that the provisions of the Banking Code and the agency agreements are not working, and customers are not being treated equivalently to those whose accounts are not transferred into the scheme, the FSA could impose specific consumer protection requirements on the reclaim fund or the banks, to lend further support to the Banking Code and agency agreement provisions, without further primary legislation. Clearly this is a judgement that the FSA would need to make in the light of careful consideration of market failure analysis, taking into account its commitments to

risk based regulation and better regulation principles. The FSA would consult fully on any specific proposals.

Participating banks and building societies will make clear to customers that they are acting as agents of the reclaim fund in the handling of disputes. Customers under the scheme will also have recourse to the FOS for the resolution of disputes with their bank or building society. This will be exactly the same for all account holders, whether or not their accounts have been transferred into the scheme.

**3. We welcome the Government's proposal that the Central Reclaim Fund will be regulated by the Financial Services Authority. (Paragraph 20)**

Under the Government's proposals, participating banks and building societies will only be able to extinguish their liabilities by passing over funds to a reclaim fund that is regulated by the FSA. HM Treasury is working constructively with the FSA in order to ensure that a reclaim fund is able to apply for FSA authorisation, subject to meeting the relevant regulatory requirements.

**4. We are not convinced that a voluntary scheme can work but, if it can work at all, it will only be through having a regime which is highly transparent. It is important that those institutions claiming to participate do so in a way that can be verified. Participating institutions should be subject to an annual certification of their involvement, signed by a nominated senior employee. Transfers of monies from the banks to the Central Reclaim Fund, and reclaims going the other way, must be audited by external auditors. The auditors' duties should include checking that all dormant accounts are being transferred and, where an institution claims an account is active despite an absence of transactions, the auditor should check that appropriate evidence is being retained. There should be credible sanctions for those institutions where the auditors discover a breach of their agency agreement with the Central Reclaim Fund. We also urge the Treasury to work with the banking industry in examining the prospects for publishing the stock and flows of dormant accounts as a note to the annual published accounts of the banks and building societies. (Paragraph 23)**

The Government agrees that the scheme should be highly transparent. One of the conditions for treating liability to a customer as extinguished on transfer of money will be that the reclaim fund consents to the transfer. This will mean that the reclaim fund is able to set the terms on which transfer is made. The Government expects these terms to be reflected in practice in agency agreements between the reclaim fund and each bank and building society. It is expected that these agreements will require that transfer of assets to and from the reclaim fund are subject to external audit.

The Government will not impose sanctions in relation to private sector agreements between the reclaim fund and banks and building societies. However, the Government believes that the incentives in legislation will be sufficient to ensure that a prudent reclaim fund will only conclude agency agreements that set out in detail the process for dealing with any breaches, and also require audits of transfers of funds. The Government is working constructively with the banking and building society sector on the detail of the agency agreements.

Transparency will be important in maintaining confidence in the scheme and ensuring that participating institutions deliver on their commitments. The Government has considered carefully the comments made by the Committee during its inquiry on unclaimed assets. The Government proposes that the legislation will provide for the central reclaim fund to disclose information about which institutions are participating in the scheme, and the value of assets transferred into the scheme, and the value of assets reunited with account holders, at individual institution level. It is envisaged that this information will be collected and published by a single body – the reclaim fund – in order to aid transparency, making it simple for consumers to access this information and make comparisons.

**5. The establishment of a statutory framework that enables financial institutions to extinguish their dormant account liabilities is of vital importance to the viability of the whole Unclaimed Asset Scheme. We note the Government’s co-operation with banks and building societies in examining this issue in detail, and welcome the Government’s commitment to bring forward legislation to resolve this issue. (Paragraph 24)**

It is proposed that legislation will allow bank and building societies to extinguish their liabilities to dormant account holders, so that the liability can be de-recognised for accounting purposes if a number of statutory conditions are met. The legislation will set out these conditions in detail. The key conditions that will enable the extinguishment of liabilities are that the institution must transfer an amount equal to the balance of the dormant account, and the reclaim fund must consent to the transfer, and must itself fulfil certain statutory conditions, including authorisation by the FSA.

### **Defining and identifying dormant accounts**

**6. In setting the dormancy period, a balance needs to be struck between minimising reclaims from the Central Reclaim Fund, and maximising the funds for disbursement to good causes. The choice of 15 years as the dormancy period is higher than in most other jurisdictions that have set up unclaimed asset schemes. In drawing a parallel with the Irish scheme (which also uses a 15 year definition), the Economic Secretary used an incomplete comparator, because the Irish scheme has a very narrow view of customer activity. In contrast, the UK scheme is set to allow financial institutions not to pass to the Central Reclaim Fund those accounts on which, although no transaction has occurred, the bank has evidence of other customer activity. It is unlikely that a significant number of customers would renew contact with their bank between the tenth and fifteenth anniversary of inactivity. We therefore recommend that the Government reduce the proposed dormancy period from 15 to 10 years. (Paragraph 29)**

The number of genuinely dormant accounts in the UK will not be affected by the time period used for defining dormancy in legislation. The time period will determine simply how many accounts are transferred into the scheme prior to possible consumer reclaim. A definition of dormancy that reflects the number of truly dormant accounts will therefore simply serve to reduce the numbers of customers reclaiming their money under the scheme.

The Government believes that a definition of dormancy based on accounts where there has been no customer activity for a period of 15 years is appropriate because it will best identify

those accounts that are truly dormant—rather than rarely used. This should minimise the level of reuniting once the scheme is operating. This is based on the experience of the banking and building society sector and international schemes, including the Irish dormant accounts scheme.

The Government has considered alternative definitions. A definition based on 10 years or less would increase the likelihood of capturing accounts which subsequently proved not to be genuinely unclaimed, and would result in a higher level of processing customer reclaims. This would not be in keeping with the key principles of the scheme, which is based on minimising the level of reuniting in order to keep costs low, and maximising the total available for redistribution in the community.

It is the industry's view that after 15 years more than 80% of accounts are genuinely lost and not reclaimed by the consumer. At 10 years, the pattern of reclaim is likely to be higher and less predictable. This is based on the Government's proposed definition of dormancy in terms of customer activity.

**7. The Government's proposals for defining dormant accounts have some merit. It is appropriate that financial institutions should be permitted to consider various forms of communication with their customers as evidence of activity, rather than relying merely on account transactions. If the scheme were to focus on transactions alone, this would inevitably lead to significant numbers of accounts being transferred inappropriately. However, certain safeguards must be in place to ensure that financial institutions are not granted 'carte blanche' in identifying dormant accounts, in order to prevent the withholding of genuine dormant funds from disbursement to good causes. We recommend that the Government:**

- **publish a precise list of transaction types that it considers to be "customer-initiated" for the purposes of the scheme;**
- **publish a list of other forms of communication that it considers to be evidence of non-dormancy;**
- **require institutions withholding accounts from the Central Reclaim Fund for non-dormancy on the basis of non-transaction activities to retain evidence of such activities and make them available for external audit. (Paragraph 32)**

The Government will bring forward legislation that will provide a definition of dormancy, but will also allow individual institutions to refer to a range of indicators to determine whether an account is genuinely dormant. The Government recognises that in some cases a lack of customer transactions on their accounts may not be a true indicator of dormancy. Under the Government's proposals, financial institutions will have the flexibility to consider other forms of customer-initiated activity in addition, such as correspondence with the institution or customer-initiated activity on other accounts, before deciding whether an account meets the definition of being dormant. This flexibility will provide for a more sophisticated approach. This will enhance the scheme, as it will help to ensure that only genuinely dormant accounts are transferred into the scheme, and therefore reduce the level of ongoing reclaim once the scheme is operating.

This flexibility would be undermined if the Government set out an exhaustive list of the activities that it deemed to demonstrate activity, or did not allow the institutions to take any other activity into account when deciding if an account is dormant. It will be for the institutions to decide whether an account is genuinely dormant, based on their existing systems and knowledge.

The Government agrees that it is important that the scheme is highly transparent. Under the Banking Code, participating institutions will be required to publish their approach so that consumers are fully aware of how their bank or building society is participating in the scheme.

**8. We were encouraged by the suggestion that the banks are being conservative in their estimates. Based on the Irish experience, we consider that it is more likely that the current estimates of the scale of funds in dormant accounts will prove to be an underestimate than an overestimate, although the actual scale of funds transferred to the Central Reclaim Fund depends critically upon the success of efforts to reunite funds in dormant accounts with their rightful owners. This uncertainty is amplified by the proposed voluntary nature of the scheme, as we cannot say how many financial institutions will participate, nor how full and complete that participation will be. (Paragraph 36)**

The Government relies on the industry for estimates of the current stock of unclaimed assets. The BBA's Memorandum to the Committee suggested that unclaimed assets within bank accounts currently amount to £250 million to £350 million. The BSA has separately informed the Committee that unclaimed assets held within building society accounts amount to approximately £150 million.

### Scope of the scheme

**9. If the Government considers that specific use for identified good causes is the best use for the dormant accounts held by others, the Government should apply the same principle to accounts held by NS&I. On the grounds of equity between financial institutions, we recommend that NS&I be brought into the scope of the Unclaimed Asset Scheme. If that scheme is to be voluntary, we recommend that the Government volunteer NS&I's participation. (Paragraph 40)**

The Government has considered the case for NS&I's inclusion in the unclaimed assets scheme in detail, and has taken into account the points raised by the Committee. The Government position remains that the unclaimed assets held in NS&I accounts should not be included in the scheme.

Unclaimed assets in banks and building society accounts are held on the balance sheets of these institutions. The unclaimed assets scheme will change this by using the assets to benefit the wider community. By contrast, NS&I does not hold any of the money invested in its products on its own balance sheet. Instead, the monies are passed directly to the Exchequer where they are used to fund public services. This means that money in NS&I accounts is already benefiting the community.

As NS&I's unclaimed assets are used for public spending, including NS&I's unclaimed assets within the scheme would require the Government to fill the gap that would be

created by the transfer of assets to the scheme either by raising further funds to meet its public spending commitments or by cutting existing expenditure plans. Both alternatives would have an adverse effect on the taxpayer. NS&I, as part of Government, is therefore different from banks and building societies in such a way that would make it inappropriate to apply the principles of the scheme to unclaimed assets held in its accounts.

NS&I is, however, taking the lead along with the BBA and BSA in the part of the scheme aiming to reunite customers with lost assets, and the Government welcomes the acknowledgment of the Committee that the existing asset reuniting arrangements run by NS&I have had some success. NS&I is playing a leading role in reuniting customers with their assets, and launched a press, internet and radio advertising campaign to promote its free of charge Tracing Service on 28 July 2007. To date the NS&I Tracing Service has reunited over 46,000 customers with assets totalling approximately £47m. Alongside the BBA and BSA, the NS&I is developing proposals on how reclaim schemes can be better co-ordinated, including considering the proposal for a single customer interface. The Government understands that the industry will make a public statement on this point in due course.

**10. Life assurance is one particular product that has been included in unclaimed asset schemes in various other jurisdictions. Insufficient work has been conducted on the feasibility of including assets other than bank and building society accounts in the UK's proposed scheme to be able to recommend their inclusion. However, the eventual expansion of the scheme to incorporate other asset classes is fertile ground for discussion. To this end, we recommend that the Government consult with the insurance industry about the possibility of its involvement in the scheme at some stage in the future. (Paragraph 43)**

As set out in the 2005 Pre-Budget Report and subsequent announcements, the scheme's scope is defined according to a clear Government Manifesto commitment and is restricted to retail banks and building societies bank accounts. Introducing a scheme on this basis for the first time in the UK is an ambitious task and the Government does not propose to widen the scope of the scheme. The Government's aim is to enable a successful unclaimed assets scheme on this basis that is effective, proportionate and fair.

## **Reunifying customers with dormant accounts**

**11. We welcome the plans of the banks and building societies for a reunification exercise prior to the advent of the Unclaimed Asset Scheme. The decision to use third-party search agents will necessarily be taken with a view to balancing the cost of these activities with the value of the dormant account and the probability of successful reunification. We accept that an important component of the efforts towards reuniting smaller accounts with their customers should be the proposed publicity scheme but we are not convinced that quarterly press releases will generate sufficient awareness of dormant accounts. We urge the industry to consider a more comprehensive campaign across various forms of media. Financial institutions should also write to their customers, notifying them of their dormant account's impending transfer to the Central Reclaim Fund, unless that institution has been advised that the account-holder is no longer at that address. We urge all banks and building societies to use every**

**opportunity they can to employ these and other techniques in reuniting accounts before they are transferred to the Central Reclaim Fund. (Paragraph 52)**

The Government recognises the importance of the industry’s reuniting campaign prior to the introduction of the unclaimed assets scheme, which will help consumers to understand the current arrangements. This was an issue on which the Government specifically consulted stakeholders as part of its consultation exercise.

The Government welcomes the industry’s commitments to undertake an exhaustive campaign. The Government has written to the BBA and BSA, and also to NS&I, encouraging them to work together to consider how reuniting arrangements could be simplified and made more accessible, as well as better publicised in the run up to the introduction of legislation and after the scheme is in place. The Government understands that the industry will make a public statement on this point in due course.

## **National Register of Unclaimed Assets**

**12. The existing reclamation arrangements run by the BBA, BSA and NS&I have had some success in reuniting dormant accounts with their customers. However, the multiplicity of search mechanisms may discourage some customers in reclaiming their dormant accounts and a single search facility would be a significant improvement in this area. We do not consider that the establishment of a comprehensive register of dormant accounts, requiring account details to be transmitted to a central repository, is desirable at this moment. Such a system would be costly and involve complex data security issues. We were impressed by the proposal set out by the Commission on Unclaimed Assets for a single interface that would not hold account data itself. The great merit of this proposal would be that both costs and data transfer could be minimised. We urge the Government to investigate how such an interface could be adopted in order to unify the existing systems run by the BBA, BSA and NS&I. (Paragraph 62)**

The Government recognises the potential merits of the Commission on Unclaimed Assets proposal for a single consumer interface. The Treasury has written to the BBA, BSA and NS&I encouraging them to consider this proposal. The Government understands that the industry will make a public statement on this point in due course.

## **Building Societies**

**13. We recognise that building society members have more at stake than bank account customers in the Unclaimed Asset Scheme. It is not only their account which could be transferred to the Central Reclaim Fund, but also their membership rights. It is imperative that these membership rights are preserved in case the account holder reactivates their account at a later date. We welcome the Government’s “intention” that membership rights be protected indefinitely, but call on the Government to ensure that these rights are enshrined in the legislation it intends to bring forward. The Government has already committed to drafting a statutory right for a customer to reclaim their dormant account. We recommend that this statutory right be broadened to include all rights linked to the dormant account, not merely the funds held within it. (Paragraph 64)**

The unclaimed assets scheme will not affect the membership rights of building society members whose accounts are transferred under the scheme.

**14. We urge the Government to take steps to ensure that any benefits unclaimed by dormant building society members in future demutualisations do not accrue to the financial institutions, but rather to the proposed Central Reclaim Fund. We urge the Government to find a way to protect the ongoing rights of building society members, even post-demutualisation, and a statutory provision to that effect should be considered. With regard to past demutualisations, we invite the relevant banks to donate an amount, equivalent to the current value of unclaimed demutualization benefits claimed by them, to the Central Reclaim Fund for disbursement to good causes. (Paragraph 67)**

The membership rights of building society members will be not be affected by the scheme. This includes member's rights to cash payments as a result of demutualisations.

## Disbursement

**15. There is an inconsistency between the Government's insistence that an Unclaimed Asset Scheme ought to be voluntary in nature, and its insistence that the overall aims of distribution ought to be determined by the Government without further consultation. We regret the Government's decision to make its choices on funding priorities without meaningful prior consultation with relevant stakeholders. (Paragraph 71)**

The Government has consistently stated, since the initial announcement was made during the 2005 Pre-Budget Report,<sup>1</sup> that it believes the focus of these assets, in England, should be on youth services that are responsive to the needs of young people and financial capability and inclusion. The Government continues to believe that spending in these areas represents a worthwhile and effective use of the available resources and will bring great benefits to communities. Investment in young people and developing their success is a social and economic necessity, with society as a whole experiencing significant benefits from young people's achievements. Similarly, investing in young people is a priority for communities; when polled, members of the public point to activities for young people as being a high priority locally. Good quality youth provision can also help to improve relations between young people and the wider community.

Since the initial announcement in 2005, the Government has conducted a wide ranging review into youth services—the Children and Young People's Review—which has involved extensive consultation with youth-focused third sector organisations and young people themselves. As a result of the Review, the Government published a 10-year youth strategy in July 2007,<sup>2</sup> which sets out a strategy to transform leisure time opportunities, activities and support services for young people in England.

The Government also believes that a proportion of the available assets in England should be invested to improve financial capability and promote financial inclusion. A small but

---

<sup>1</sup> *Pre-Budget Report – Britain meeting the global challenge: Enterprise, fairness and responsibility*, HM Treasury, December 2005

<sup>2</sup> *Aiming high for young people: a ten year youth strategy for positive activities*, HM Treasury, Department of Children, Schools and Families (July 2007)

significant minority of people are still unable to access even the most basic financial services. For these people, financial exclusion creates difficulties in day-to-day money management; makes it harder to plan for the future and manage their spending; and leaves them more vulnerable to financial distress and a spiral of debt, poverty and hardship. In 2007, the Government has set out long-term strategies to take forward action to improve financial capability and promote financial inclusion.<sup>3</sup>

In addition to these established priorities for investment, the Government sees merit in the model of a new social investment institution proposed by the Commission on Unclaimed Assets. Resources permitting, to reflect the Government's increasing recognition of this gap in the market, we will use an appropriate proportion of the available assets in England to invest in the long-term sustainability of the third sector and boost the social investment market.

In keeping with the principles of devolution, the administrations in Scotland, Wales and Northern Ireland will determine their own areas for distribution, which may differ from those set out for England.

**16. We find the concept of using gearing to multiply the potential impact of unclaimed assets attractive when compared to more traditional grant-giving distribution methods. We have been told that the Social Investment Bank needs minimum funding of £330 million over five years for it to be viable, but we do not, at present, see any sign of the Government committing resources to social investment of this scale. We believe that the Government cannot will the ends if it does not will the means. We want the Government to allocate sufficient resources to a Social Investment Bank funded in part through unclaimed assets. (Paragraph 81)**

As set out in the response to recommendation 15, the Government has consistently stated, since the initial announcement in the 2005 Pre-Budget Report, that the priorities for spending in England should be youth services and financial capability and inclusion and it has always been clear that these would remain primary priorities.

However, the Government recognises the contribution that a thriving third sector can make to the creation of stronger communities, an entrepreneurial society, the participation and engagement of individuals and more effective public services. The joint HM Treasury and Cabinet Office review of the future role of the third sector has shown that access to appropriate forms of finance is often the single biggest concern of sector.<sup>4</sup>

Following the outcome of the third sector review, and the arguments put forward by the Commission on Unclaimed Assets and others, the Government added a third priority spending strand for England. Resources permitting, we would like to see a proportion of unclaimed assets used to develop the social investment market and invested in the long-term sustainability of the sector. The Government consulted on this basis.

There is continuing uncertainty over how much will be available in surplus assets for distribution back into society, following renewed efforts to reunite owners with their assets,

---

<sup>3</sup> *Financial Capability: The Government's long-term approach*. HM Treasury, January 2007; *Financial Inclusion: the way forward*, HM Treasury (March 2007)

<sup>4</sup> *The future role of the third sector in social and economic regeneration: final report*, HM Treasury, Cabinet Office, July 2007

and the need for the independent Reclaim Fund to hold back a proportion of assets to cover possible applications for future reclaim. The Government is therefore unable to predict accurately at this time how much might be available from unclaimed assets towards increasing the provision of social investment.

The Commission on Unclaimed Assets had stated that a Social Investment Bank would need £330 million of capital over 5 years. However, although a proportion of unclaimed assets may be available to help establish a new vehicle for social investment, other sources of finance would need to be identified to capitalise a new institution on the scale proposed by the Commission. The Government has made it a priority to examine how a new social investment wholesale institution and other new approaches to social investment might help to ensure that third sector organisations can access more secure and sustainable funding and finance.

**17. We recommend that, in its response to this Report, the Government clarify whether building societies adopting the local disbursement option will be required to have regard to the wider objectives of the Government for funds made available from unclaimed assets. (Paragraph 86)**

As announced in the 2005 Pre-Budget Report, the legislation will provide that small and locally based banks and building societies will have an option of participating in the scheme in a different way. The Government recognises that some small and locally based institutions will wish to see the money spent for the benefit of their local communities. Under the proposed legislation, therefore, these institutions will be able to transfer surplus funds to charitable organisations without regard to the wider objects of the scheme.