

Title: The Child Support Maintenance Calculation Regulations 2012 IA No: DWP 0013 Lead department or agency: DWP: Child Maintenance and Enforcement Commission Other departments or agencies:	Impact Assessment (IA)		
	Date: 29/03/2012		
	Stage: Final		
	Source of intervention: Domestic		
	Type of measure: Secondary legislation		

Summary: Intervention and Options	RPC Opinion: Green
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Cost of Preferred (or more likely) Option

Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as One-Out?
£193m	-£1.6m	£0.1m	Yes	In (If taken in isolation)

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

There are around 2.5 million separated families with children in Great Britain of which just under a half have effective child maintenance arrangements. The current child maintenance system is failing too many families, reform is needed to rectify this to ensure that both parents take financial responsibility and child maintenance is paid. The Government is therefore undertaking a radical reshaping of the child maintenance system to encourage and support families to make their own collaborative arrangements and, for those who need the statutory scheme, to deliver a much more efficient and effective service. The current schemes run by the Child Support Agency do not deliver value for money to the taxpayer, with operational and IT difficulties at the heart of the problem.

What are the policy objectives and the intended effects?

Where parents cannot make family-based arrangements: provide a simplified, more transparent, quicker and cost-effective calculation for clients; and provide a more cost-effective calculation.* This will be enabled through a new IT system linking directly to income data from Her Majesty's Revenue and Customs. This impact assessment (IA) considers the costs and benefits of introducing a new calculation as well as the system to support it, while as far as possible excluding the impacts of other planned policy changes. The overall policy introduces complementary regulations to more than offset the extra costs to business of operating deductions from earnings orders (DEOs) in the new scheme. **When considered with the IA for the proposed Child Support Collection and Enforcement (Amendments) Regulations 2012 there is a net saving to business - see paragraphs 132-139.** (*The regulations also align the definition of child with child benefit rules and reduce the volume of child support regulations making them more accessible to users.)

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

1a. Do nothing – continue with the current method of calculation with the existing computer systems.
 1b. Continue with the current method of calculation with a new IT system.
 2. Use these regulations to introduce the new child support maintenance calculation and supporting IT system.

The preferred is option 2. In 2006 Sir David Henshaw was asked to consider and subsequently published options to deliver an improved child maintenance service [6]. He concluded that the child support system was failing to deliver as a result of policy and operational issues and gave recommendations including a new model for delivery and use of gross historic income. This was followed by a White Paper in 2006 [1] and the Child Maintenance and Other Payments Act in 2008 [2]. These regulations and the new IT system will enable these policy improvements to deliver a much more efficient and transparent service.

Will the policy be reviewed? Yes		If applicable, set review date: 04/2015			
Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro Yes	< 20 Yes	Small Yes	Medium Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A		Non-traded: N/A

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) that the benefits justify the costs.

Signed by the responsible: Minister

Maria Miller

Date: 29 March 2012

Summary: Analysis and Evidence

Policy Option 2

Description: Use these regulations to introduce the new child support maintenance calculation and supporting IT system.

Price Base Year 2011/12	PV Base Year 2011/12	Time Period Years 20	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: £193m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low		17		
High				
Best Estimate	£489m		£60m	£534m

Description and scale of key monetised costs by 'main affected groups'

Commission: Build and implementation of new IT: one-off cost of £89m (£248m total investment but £159m is sunk), on-going average annual costs of £7m; introduction of periodic reviews: £44m annually, build up of £332m in transition; additional appeals: annually £5m, £33m transition. DEO costs if regulations are not changed to account for new calculation: contacting employers £1.1m annually, £9.2m in transition; associated IT build costs £0.5m. **Employers:** Increase in number of changes to deduction from earnings orders because of periodic reviews of maintenance calculations (£0.3m annually, £3m transition); DEO costs if regulations are not changed to account for new calculation: providing employee net income information to the Commission for new scheme DEOs: £1.5m annually post transition, £13.1m in transition. **HMCTS:** Additional appeals (annually £1.4m, £9m transition). **HMRC** investment costs of £7m (mostly sunk) and annual running costs of £0.3m borne by the Commission and included in Commission IT totals above;

Other key non-monetised costs by 'main affected groups'

Parents: Changes to calculation rules result in costs to one parent depending on the maintenance liability.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low		17		
High				
Best Estimate	£762m		£94m	£726m

Description and scale of key monetised benefits by 'main affected groups'

Commission: New Commission IT system enables link to HMRC income data reducing employer contact, automation of calculations as far as possible and fewer in-year changes to calculations because of income changes, reduces application and on-going maintenance costs (£93m annually, £748m transition). **Employers:** Use of income data from HMRC reduces the burden on employers to supply this, (£1.4m annually, £14m transition).

Other key non-monetised benefits by 'main affected groups'

Parents: Using gross income from HMRC leads to simpler, more transparent and timely assessments enabling money to flow quicker. Calculation rule changes result in a benefit to one parent depending on the maintenance liability. Periodic reviews mean the calculation is always up to date. **Employers:** The Commission's new IT system enables many process improvements to be implemented. **All:** Reduced volume of child maintenance regulations.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5%
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Direct impact on business (Equivalent Annual) £m):			In scope of OIOO?	Measure qualifies as
Costs: £0.9m	Benefits: £0.8m	Net: £0.1m	Yes	IN (but see One-in-One-out section below)

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?		Great Britain			
From what date will the policy be implemented?		2012			
Which organisation(s) will enforce the policy?		CMEC			
What is the annual change in enforcement cost (£m)?		N/A			
Does enforcement comply with Hampton principles?		Yes			
Does implementation go beyond minimum EU requirements?		N/A			
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)		Traded: N/A		Non-traded: N/A	
Does the proposal have an impact on competition?		No			
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?		Costs:		Benefits:	
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	Micro	< 20	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties ¹ Statutory Equality Duties Impact Test guidance	No	31
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	Yes	25
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	Yes	23
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

¹ Public bodies including Whitehall departments are required to consider the impact of their policies and measures on race, disability and gender. It is intended to extend this consideration requirement under the Equality Act 2010 to cover age, sexual orientation, religion or belief and gender reassignment from April 2011 (to Great Britain only). The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessments of earlier stages (e.g. Consultation, Final, Enactment) and those of the matching IN or OUTs measures.

No.	Legislation or publication
1	White Paper: A new system of child maintenance: http://www.dwp.gov.uk/docs/csa-report.pdf
2	Child Maintenance and Other Payments Act 2008: http://www.opsi.gov.uk/acts/acts2008/ukpga_20080006_en_1
3	Child Maintenance and Other Payments Act 2008 - Regulatory Impact Assessment http://www.dwp.gov.uk/docs/cm-bill-ria1.pdf
4	Welfare Reform Act 2009: http://www.opsi.gov.uk/acts/acts2009/ukpga_20090024_en_1
5	Welfare Reform Bill 2009 – Regulatory Impact Assessment http://www.dwp.gov.uk/docs/welfare-reform-bill09-ia-intro.pdf
6	Sir David Henshaw's report: "Recovering Child Maintenance: Routes to Responsibility", July 2006. http://www.dwp.gov.uk/policy/child-maintenance/sir-david-henshaws-report/
7	Relationship Separation and Child Support Study, 2008. DWP Research Report No 503: http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep503.pdf
8	Child Support Agency – Quarterly Summary Statistics, December 2011 http://www.childmaintenance.org/en/publications/statistics.html
9	Internal Analysis using the DWP families with children population projection, 2008 Families and Children Study and September 2010 Child Support Agency administrative data
10	Green Paper: Strengthening families, promoting parental responsibility: the future of child maintenance, January 2011 – Paper and Impact Assessment: http://www.dwp.gov.uk/consultations/2011/strengthening-families.shtml
11	Department for Work and Pensions – Research Report No 529: "Child Support Agency – employers' views on setting up and processing Deduction from Earnings Orders", 2008 http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep529.pdf
12	Department for Work and Pensions – Research Report No 530: "Informing the piloting of Deduction from Earnings Orders as the primary method of collecting child maintenance" http://research.dwp.gov.uk/asd/asd5/rports2007-2008/rrep530.pdf
13	NUS / HSBC Students Research - October 2008: http://www.nus.org.uk/PageFiles/350/Employability%20Mini%20Report%20October%202008%20-%20Final%20(2).doc
14	Government's response to the consultation on Strengthening families, promoting parental responsibility: the future of child maintenance: http://www.dwp.gov.uk/docs/strengthening-families-response.pdf
15	The Child Support Maintenance Calculation Regulations 2012: A technical consultation on the draft regulations http://www.childmaintenance.org/en/pdf/Maintenance-Calculation-Regulations-2012-Technical-Consultation.pdf
16	Consultation Stage Impact Assessment: The Child Support Maintenance Calculation Regulations 2012: http://www.childmaintenance.org/en/pdf/Maintenance-Calculation-Regulations-2012-Impact-Assessment.pdf
17	The Child Support Collection and Enforcement Amendment Regulations 2012: A technical consultation on the draft regulations http://www.childmaintenance.org/en/pdf/Collection-Enforcement-Regulations-2012-Technical-Consultation.pdf
18	Consolation Stage Impact Assessment: The Child Support Collection and Enforcement Amendment Regulations 2012 http://www.childmaintenance.org/en/pdf/Collection-Enforcement-Regulations-2012-Impact-Assessment.pdf

Evidence Base

Annual profile of monetised costs and benefits* - (£m) constant prices (IN ATTACHMENT)

* For non-monetised benefits please see summary pages and main evidence base section



Microsoft Office
Excel Worksheet

Evidence Base (for summary sheets)

Rationale for intervention

1. In 2006 Sir David Henshaw was asked to consider and report on the longer-term policy and delivery arrangements for child support including:
 - a. How best to ensure that parents take financial responsibility for their children when they live apart. The best means for this would be for parents to come to an arrangement themselves but the state must be able to intervene and ensure the children receive financial support;
 - b. The best arrangements for delivering this outcome cost effectively; and
 - c. The options for moving to new structures and policies, recognising the need to protect the level of service offered to the 1.1 million parents with care currently using the statutory system.
2. Key issues addressed were the widespread operational and IT difficulties, poor cost-efficiency for the taxpayer and complexity of a system which attempts to account for many complicated parental situations and cannot keep up.
3. Building on Sir David Henshaw's recommendations, the White Paper 'A new system of child maintenance' was published, followed by a consultation period of 13 weeks. This was followed by the Child Maintenance and Other Payments Act 2008 which made the changes to primary legislation required to implement the White Paper proposals.
4. The previous Government started the design of a new system of child maintenance, at the heart of which, following the recommendations, is a new IT system to address issues including the current need for separate costly off-system handling and use of gross income for the purposes of the calculation rather than, the more complicated, net income. These will lead to cost savings for government through a reduced administration burden and removal of off-system handling that manage cases due to failures of the current IT systems.
5. These regulations provide the detailed rules for calculating maintenance under the statutory framework established by the Child Support Act 1991 as amended by the 2008 Act.

General Context

6. As of December 2011 the Child Support Agency (CSA), part of the Child Maintenance and Enforcement Commission (CMEC), administered around 1,140,500 cases of which 876,300 had a positive child maintenance liability and 78% of these were compliant [8].
7. There were 882,600 children benefiting from child maintenance collected through the Child Support Agency or money arranged through it [8].

Policy Option 1a: Do nothing

8. Under this policy the Child Support Agency would continue administering child maintenance calculations under the current secondary legislation, covering two separate schemes (the 1993 and 2003 schemes), two separate complex existing IT systems and an off-system clerical database.
9. Under the current child maintenance rules net income is used for the calculation which the Child Support Agency is reliant on obtaining from the non-resident parent, and in a lot of circumstances where the parent is employed, from the employer. Net weekly income consists of earnings from employment, profits from self-employment, tax credits and pension scheme payments. Where appropriate these amounts are after the deduction for income tax, national insurance, and contributions to occupational or personal pension schemes.
10. Maintenance is worked out as a percentage of the non-resident parent's net income under one of the rates below:
 - a. Basic rate – if the net income is more than £200 a week. The weekly net income is reduced by 15% if there is one relevant other child, 20% for two and 25% for three or more. A relevant other child is a child for whom the non-resident parent or his/her partner is in receipt of child benefit

and who typically lives in their household. From the remaining weekly net income, the child maintenance liability is 15% for one qualifying child, 20% for two and 25% for three or more children.

- b. Reduced rate – if the net income is between £100 and £200 a week. The maintenance liability is worked out as a flat rate of £5 on the first £100 of net income plus a percentage of the net weekly income over £100. The percentage varies according to the number of qualifying and relevant other children as per the following table:

		Qualifying children		
		1	2	3+
Relevant other children	0	25.0	35.0	45.0
	1	20.5	29.0	37.5
	2	19.0	27.0	35.0
	3	17.5	25.0	32.5

- c. Flat rate – if the net income is £100 or less per week or if the non-resident parent (or in certain situations his/her partner) is in receipt of certain prescribed benefits, for example, Income Support or income-based Jobseeker’s Allowance. The flat rate is £5 a week.
- d. Nil rate – if the net income is less than £5 a week or the non-resident parent is a student in full time education, a prisoner, 16 or 17 and in receipt of Income Support or Jobseeker’s Allowance, engaged in work-based training, living in care, a nursing home or hospital and get a benefit or pension or liable to pay the flat rate because of benefit receipt and shares care of the qualifying child for at least one night a week.
11. Adjustments can then be made if the non-resident parent cares overnight for the child(ren) a certain number of times a year. On top of this, variations can be applied for where a non-resident parent may have income from other sources or special costs.
12. There is a limit of £2,000 net weekly income which can be taken into account when working out child maintenance. Above this the parent with care can apply to the courts for a ‘top-up’.

Policy Option 1b: Do nothing to the calculation methodology & introduce new IT system

13. Under this policy the Child Support Agency would continue administering child maintenance calculations under current secondary legislation as detailed in Option 1a but with a new IT system. This would address the issue of significant volumes of cases requiring handling on a separate IT system reducing both the Commission’s costs and improving the service clients receive.
14. However, this option does not achieve the objectives laid out for the policy to provide a simplified and more transparent and quicker calculation for clients, a more cost-effective calculation, reduction in number and volume of child support regulations or alignment of definition of child with Child Benefit rules. It would also require a complex case migration programme between the old and new IT systems.

Policy Option 2: Make changes to the calculation methodology & introduce new IT system

15. Under this option the amendments made by the 2008 Act are brought into force and four existing sets of secondary legislation setting out the detailed rules and procedures for calculating child maintenance are brought together into one shortened and simplified set of regulations.
16. The approach to the re-write of those regulations has been to retain the basic principles where appropriate but to simplify and streamline these as far as possible. The existing sets of regulations being replaced are:

- a. The Child Support (Maintenance Calculation and Special Cases) Regulations 2000;
 - b. The Child Support (Maintenance Calculation Procedure) Regulations 2000;
 - c. The Child Support (Variations) Regulations 2000;
 - d. The Social Security and Child Support (Decisions and Appeals) Regulations 1999 (in so far as they relate to child support).
17. The Calculation Regulations and the Consequential and Miscellaneous Amendment Regulations will apply to applications to the statutory scheme received after the launch of the new scheme. The regulations which they replace will continue to apply to existing cases until those cases close or move onto the new scheme. Those arrangements will be set out in separate regulations.
 18. A new IT system will be introduced to support the calculation.
 19. The main areas of change brought about with these regulations and the rationale for these are:

Application for a maintenance calculation

20. There are two significant changes to the application process proposed under the new scheme of child maintenance. The first is to simplify the procedures for dealing with applications received at the same time – the client who first makes an application to the Commission will be treated as the applicant whereas currently the parent with care’s application always takes precedence. The second change is a requirement for the parent with care to provide sufficient information for the non-resident parent to be identified in order for an application to be considered.

Rationale

21. Equalising the treatment of applications received at the same time simplifies the rules, creates a level playing field and acknowledges where a non-resident parent has voluntarily taken responsibility for the maintenance of their child. Since these changes are likely to affect very few cases and have no significant monetary impact there are no references to these in the costs and benefits section.
22. The only cases which will be accepted are those for which the non-resident parent could reasonably be located by the Commission so the system will not contain cases which can never be actioned further. This will reduce the administrative burden on the Commission through wasted effort and allow more time to be spent ensuring that maintenance is paid in active cases.

Gross weekly income

23. The 2008 Act changed the definition of weekly income used in child maintenance calculations from “net” to “gross”. These regulations define the gross income to be used. This is essentially earnings from employment or self-employment, pension scheme payments and certain social security benefits, but only for income that is taxable. Income Tax and National Insurance contributions will not be deducted from the income before the calculation is performed, as happens at present, though contributions to approved occupational or personal pension schemes will still be.
24. Gross income will not include any tax credits which are presently included in a non-resident parent’s net income. Gross income earned as an auxiliary coastguard, part-time fighter or lifeboat crew member, reserve or territorial force member or local authority councillor will no longer be disregarded.
25. In the first instance historical income data from the latest available tax year, up to six years back, sourced directly from Her Majesty’s Revenue and Customs (HMRC) will be used. A non-resident parent’s current income will be used instead if this is more than 25 per cent different from the historical information or if HMRC is unable to supply a positive figure.

Rationale

26. The changes have been made in order to make best use of gross annual income reported by HMRC. Income details are held by HMRC in their gross form. If figures are used with minimal adjustment by the Commission, not only will it mean that figures will be more recognisable to parents, but it will also simplify the calculation process.

27. Tax credits will no longer be included because only taxable income is included in HMRC's gross income data. The change to the treatment of payment made to non-resident parents in paragraph 24 above means that these groups are treated no differently than other non-resident parents with earnings.

Percentages and rates used for the maintenance calculation

28. The percentages of income which are used in the calculation of child maintenance have been changed and an additional set of basic rate percentages described as basic plus, will be added to the existing nil, flat, reduced and basic rates as announced in the 2008 Act. The percentages to be applied were detailed in the 2008 Act. These regulations define the percentages to be used for the reduced rate.

29. The new percentages to be used will be:

- a. Basic plus rate – for gross income over £800 a week. On the income over £800 a week, the child maintenance will be 9% for one qualifying child, 12% for two and 15% for three or more qualifying children. The reductions for relevant other children will be 11% for one relevant other child, 14% for two and 16% for three or more.
- b. Basic rate – for gross income between £200 and £800 a week. The child maintenance liability will be 12% for one qualifying child, 16% for two and 19% for three or more children. The reductions for relevant other children will be 11% for one relevant other child, 14% for two and 16% for three or more.
- c. Reduced rate – for gross income between £100 and £200 a week. The maintenance liability is worked out as a flat rate of £10 on the first £100 of gross income plus a percentage of the gross weekly income over £100. The percentage varies according to the number of qualifying and relevant other children to ensure that liabilities increase smoothly as gross income increases from £100 to £200 as per the following table:

		Qualifying children		
		1	2	3+
Relevant other children	0	14.0	22.0	28.0
	1	11.4	18.5	23.8
	2	10.6	17.5	22.7
	3	10.2	16.9	21.9

- d. Flat rate – if the gross income is £100 or less per week or if the non-resident parent (or in certain situations his/her partner) is in receipt of certain prescribed benefits, for example, Income Support or income-based Jobseeker's Allowance. The flat rate is £10 a week. A figure of £7 a week was consulted upon in the 2006 White Paper 'A new system of child maintenance' [1]. This figure was increased to £10 following a public consultation on the Child Support Maintenance Calculation Regulations 2012.
 - e. Nil rate – if the net income is less than £10 a week or the non-resident parent is a student in non-advanced education, a prisoner, 16 or 17 and in receipt of Income Support or Jobseeker's Allowance, engaged in work-based training, living in care, a nursing home or hospital and get a benefit or pension or liable to pay the flat rate because of benefit receipt and shares care of the qualifying child for at least one night a week.
30. The reduction percentage for relevant other children have been changed following the consultation on these regulations so that the amount of income allocated to a relevant other child aligns better with that allocated to the qualifying child.
31. Non-resident parents who are students will no longer qualify automatically for the nil rate of assessment.
32. At go-live of the new scheme the commencement of the increase in the flat rate of maintenance from £5 a week to £10 a week will occur.
33. The maximum income used in the calculation will be capped at £3,000 gross income.

Rationale

34. The change to using gross income rather than net income necessitates a change in the percentages to be used in the calculation to enable the new maintenance liabilities to align as closely as possible with the current rules.
35. Students are frequently in employment and have an income they can use to support their child so will be treated like any other non-resident parent.
36. The flat rate has not been updated since it was introduced with the current child maintenance scheme in March 2003. An increase in the flat rate to £10 will further increase the amount of money flowing to children and reflects more closely the maintenance which non-resident parents (NRPs) in work but not on the flat rate are required to pay.
37. The income cap of £3,000 gross weekly income is to align with the current £2,000 net weekly income cap.

Shared care

38. The regulations allow the Commission to assume an amount of shared care equivalent to one night a week in the event of a dispute between parents where they agree in principle that there is shared care but cannot agree on the number of nights. This treatment would continue until an agreement is reached between them. Under current policy caseworkers would have to obtain firm evidence to resolve the issue before the case can progress.
39. The regulations state that if parents share day to day care exactly equally then there will be no statutory maintenance liability. Under the current system one of these, the parent who does not receive Child Benefit for the child, will be treated as the NRP and will be subject to a maintenance liability.

Rationale

40. Significant time can be spent by caseworkers in resolving shared care issues at present causing delays to parents in getting maintenance flowing. The frequent absence of hard evidence showing the care that has taken place can be problematic for decision making and can cause tension between parents. The regulations should make the system more cost-efficient and less time-consuming.
41. Changes to equal shared care rules will make the system fairer since both parents are providing for the child(ren) for half of the time. The decision will reflect the care of the child rather than simply the receipt of Child Benefit to determine the parent with care.

Family-based maintenance arrangements taken into account

42. Existing regulations include any qualifying children the non-resident parent has within the statutory scheme and any children living with the non-resident parent in the calculation. If a non-resident parent is supporting a child outside of the statutory scheme (a family-based arrangement is in place) then that child is excluded from the calculation – unless it would not be possible to make an application to that scheme, for example because the child lives abroad. The result is the non-resident parent pays more child maintenance than if the child(ren) from the family-based arrangement was included in the calculation.
43. The 2008 Act provided rules to include any children covered by a family-based arrangement within the calculation, regardless of whether the arrangement was made through the courts or is a verbal agreement between parents. The regulations provide an interpretation of what can count as a formal arrangement.

Rationale

44. This will encourage successful family-based arrangements to remain outside the statutory scheme and ensure that the scheme recognises all the children non-resident parents are supporting, resulting in a fair and correct amount of statutory child maintenance.

Periodical reviews and in-year changes of income

45. The regulations will require the Commission to review the non-resident parent's gross weekly income on an annual basis (annual review). This will mean that where gross weekly income is based on historic HMRC latest tax-year data, it can be updated every year automatically. Where the gross weekly income is based upon current income, that income will be compared at the annual review to the latest available HMRC data, ensuring the maintenance calculation is based upon the most reliable source of information available. Current income will continue to be used if it remains at least 25% different from the latest HMRC figure.
46. There will be a 25 per cent tolerance level by which income must change in order for a change to child maintenance liabilities to be given effect apart from the annual review process. Where the Commission has been unable to accept changes below this level at the time they are reported, the latest HMRC data will eventually reflect them and they will be given effect when the Commission updates the gross weekly income at the annual review.

Rationale

47. A failing of the existing system is that small changes in income can lead to a change in a maintenance award- any change of at least 5 per cent which is notified to the Child Support Agency means that the maintenance award has to be recalculated, with consequent changes to payments. Such instability can create uncertainty for parents about their income and results in staff having to review a maintenance award, diverting their time and effort away from keeping money flowing to children. Using tax-year data, which are updated on a regular basis, provides an opportunity to fix maintenance awards for a period of time so reducing the number of cases where changes of circumstances are reported.
48. The system needs to be sufficiently flexible to deal with major changes in circumstances or unexpected events. In some instances therefore awards would be altered, such as a move in or out of employment or the death of a qualifying child. If income changes in the year, so that it differs by 25 per cent from the figure produced by the tax year data, then the maintenance liability will reflect the new income figure.
49. The use of HMRC data, in combination with awards of one year, will lead to an annual readjustment in the income used to determine the liability of a non-resident parent, as the income from one tax year is replaced by the income from the next tax year.
50. At present many cases can get out of date and not reflect the non-resident parent's up to date income since there is no requirement for a non-resident parent to report any income changes. This can result in unfairness because some NRPs choose to report falls in income but not increases. The introduction of annual reviews will ensure child maintenance liabilities remain up to date according to recent non-resident parent's income while the 25 per cent limit for changes ensures the liability remains stable throughout the year while recognising that significant changes need to be incorporated.
51. With gross income data being sourced directly from HMRC and the new child support computer system's ability to support automatic calculations it is more cost-effective for the calculations to be performed annually with fewer manual in-year changes being required. Parents will not have to supply information and keep the Commission updated with as many changes.

Alterations to rules on variations

52. Currently if a parent with care applies for a variation on the grounds of a non-resident parent's assets the Commission will apply a notional income from the asset. Under the proposed regulations the Commission will often get this information as unearned income data directly from HMRC enabling the maintenance liability to reflect the true income from an asset.
53. The variation where a parent with care claims the non-resident parent's lifestyle is inconsistent with the declared income is being removed and the actual income data obtained from HMRC will be used.
54. Currently a variation application is rejected automatically if the non-resident parent is on working tax credits. These regulations will mean that the variation application is not automatically rejected in this situation.

55. The variation ground that applied to a non-resident parent who had transferred capital or property before 1993 as part of a clean break settlement is now spent. Therefore this is being removed.
56. Where a non-resident parent has a period of shared care the existing regulations disallow contact costs for the same period, these cover, for example, travel costs or overnight accommodation. Under the proposed regulations they will be allowed contact costs.
57. A non-resident parent can apply for a variation which takes account of special expenses not accounted for in the calculation, for example, paying off a debt which was incurred while still with the parent with care. Under the current rules a special expense applies only to the balance of the weekly cost above £10 (where the non-resident parent is on the reduced rate) or in some cases £15 (where the non-resident parent is on the basic rate). Under the proposed regulations this is replaced so that for each expense, a variation will not be allowed if the cost is less than £10, but if it exceeds that amount, a variation will be given for the full amount.

Rationale

58. At present it is very difficult for parents with care to obtain evidence to support their variation application and many of the changes listed are to enable actual HMRC data to be used as evidence instead ensuring a fairer, simpler and less time-consuming system which reduces the stress on parents to provide the necessary evidence and on the Commission to administer variations.
59. Removal of the life-style ground ensures that variations in the new scheme will be based on a non-resident parent's actual income rather than trying to deduce amounts based on their lifestyle which currently is time-consuming for the Commission and difficult to obtain evidence.
60. Allowing contact costs and shared care during the same period encourages regular contact between non-resident parents and their children.
61. Removal of rules where a variation can be applied if there was a capital or property transfer before 1993 is because there are very few qualifying children remaining for which this settlement applies.

Change to the definition of a qualifying child

62. The 2008 Act raised the upper age limit of a qualifying child from nineteen to twenty. The regulations align the definition of a child with Child Benefit legislation.

Rationale

63. This measure will align the definition of a child used by the Commission with that in Child Benefit provisions. This restores the position that applied before 2006 and means regulatory changes will not be required for the Commission to align in the future.

Delivery of the new calculation

64. The key change to enable delivery of this new scheme is the introduction of a new IT system and the costs and benefits associated with this are included in the unit costs in this impact assessment. This will provide a direct link to obtain gross annual income reported by HMRC. The calculations will be automatically processed to enable simplicity and cost-effective delivery.
65. The proposed regulations are planned to come into force in 2012. At that time the existing schemes will be closed to new applications. Any clients already using the current systems will continue with their existing maintenance scheme unless there is a particular reason for them to move. For example, in order to ensure that the parent's responsibility to support all of his / her children is assessed consistently under one set of rules, if an application is made to the new scheme where the non-resident parent has cases on the existing schemes, they all will be transferred to the new scheme.
66. Within "Strengthening families, promoting parental responsibility: the future of child maintenance" [10], the Government proposed that once the new scheme is judged to be working well, over time, cases in existing schemes would be closed and clients would be invited to access information and support to help them collaborate and make their own, family-based arrangements, or apply to the new scheme if they cannot do so. There will be a separate consultation on closing cases on the existing schemes. Once agreed, these rules will be contained in separate regulations.

Time period for impact assessment

67. Since the details of how cases will be closed have not been finalised, for the purposes of assessing the impact of these regulations all CSA clients are assumed to remain on the existing schemes until they close naturally or transfer to the new scheme because of a linked new scheme application.
68. Without bulk case closure, it would in theory take up to 20 years for the last current scheme cases to close. After that time the youngest child remaining in a current scheme case would be too old for the parent with care to claim child maintenance. Only at that stage would it be possible to shut down the current IT systems for on-going maintenance, for transition to be completed, and for steady state costs and benefits to be realised.
69. In practice a large majority will have closed after 17 years. Therefore the time period for the policy reforms presented here is 20 years: 17 years of transition and 3 years to establish stable annual average costs and benefits in the post transition period. A shorter post transition time period would not allow steady state costs and benefits to be assessed.
70. A longer post transition time period of 10 years was considered for use in this IA, as the policy is expected to continue in the long term. However early closure of existing CSA cases will considerably shorten the effective transition time period.
71. For consistency the 20 year time period used here will be followed in assessment of all the child maintenance reforms. This will allow for a much longer post transition time period in which to assess the other child maintenance reforms, once case closure regulations have been finalised.

New calculation regulations in the context of the wider child maintenance reforms

72. The Government published a response to the consultation on “Strengthening families, promoting parental responsibility: the future of child maintenance” on 12 July 2011 [14]. The final set of child maintenance policies which emerge following further planned consultations on draft regulations are likely to result in significant changes to the number and mix of people using the statutory service. This will have consequential effects on the costs and benefits of the future child maintenance system as presented in this impact assessment. These effects will be assessed alongside the relevant further legislative and regulatory changes where appropriate. The areas covered are:
 - a. Amending deduction from earnings order regulations to take account of the gross income data in the new statutory scheme.
 - b. Charging of parents with care (PWCs) and non-resident parents (NRPs) to use the new statutory scheme.
 - c. Giving non-resident parents the choice whether or not to use Maintenance Direct *.
 - d. A mandatory information and support gateway parents will need to visit before applying to the statutory service *.
 - e. Closure of cases on the existing child maintenance schemes.

** These areas are covered by the Welfare Reform Act 2012, no regulations are required*

73. An indicative plan of how the implementation of these policies will fit together is outlined in the diagram on the following page. The grouping of policies in the diagram shows how the various policies interrelate.

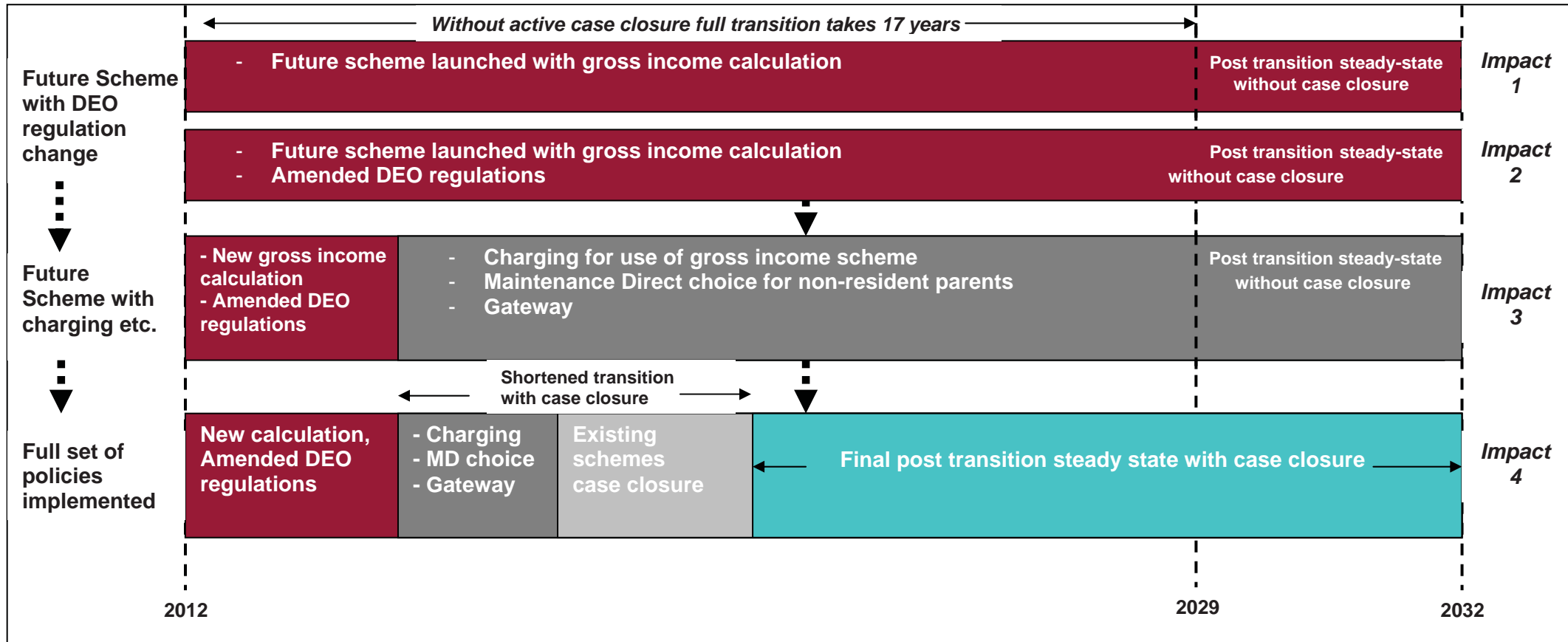
Consultation on the new calculation regulations

74. A wide range of stakeholders with an interest in child support maintenance were consulted on the draft Child Support Maintenance Calculation Regulations 2012, The Child Maintenance (Changes to Basic Rate Calculation and Minimum Amount of Liability) Regulations and the Child Support (Maintenance Calculation)(Consequential and Miscellaneous Amendments) Regulations 2012, between 1 December 2011 and 23 February 2012. The consultation document, draft regulations, Impact Assessment and Equalities Impact Assessment were made available on the Commission’s website. The Commission wrote to its main stakeholders and informed them about the consultation exercise. A stakeholder meeting took place in January 2012 where Maria Miller MP, members of the

Commission Executive and key stakeholders met to discuss the initial headline thoughts of stakeholders regarding the changes proposed in the consultation.

75. There were thirty six responses to the consultation. Responses to the draft Regulations were mixed. Two proposals have been changed in light of the comments made by respondents. The Commission has considered all other views but continue to maintain that the proposals for the statutory scheme, working in conjunction with other support networks for separating and separated families, will provide a stable platform for the new scheme of child support maintenance.
76. The Chartered Institute of Payroll Professionals (CIPP) welcomed the proposal to use a 25 per cent variance when calculating child maintenance as not only might it provide stability for parents and more importantly their children, but also the CIPP believes this may also reduce the number of amended Deduction of Earnings Orders and the resulting enquiries to the payroll office.
77. There were no specific comments from stakeholders which would influence our costs as noted in the Impact Assessment. There were no comments regarding monetised costs and benefits from our main groups; non-resident parents, parents with care, Employers and the Commission.
78. The Government response to the consultation on the draft Child Support Maintenance Calculation Regulations 2012 will be published on the Commission website at:
<http://www.childmaintenance.org/en/publications/consultations.html>

Child Maintenance Policy Reforms – Illustrative timeline and grouping of Impact Assessments



Future Scheme calculation

Regulations to introduce a new child maintenance calculation and supporting IT system.

Amending DEO regulations

to take account change in availability of (net to gross) income data in the new statutory scheme – information needed when requesting employers to impose a DEO.

Charging

Charging PWCs and NRPs to use the new statutory scheme (application, collection and enforcement charges).

Maintenance Direct choice

Giving non-resident parents freedom of choice with regards to use of maintenance direct to compliment charging regime.

Gateway

A mandatory information and support gateway designed to encourage family based arrangements. Parents will need to visit before applying to the statutory service. .

Case closure

All existing schemes cases will be closed over a specified period of time, with support and guidance provided to parents on their future options, to allow them to decide if they want to make applications to the new statutory service.

COSTS AND BENEFITS

79. The costs and benefits of this policy were presented in the impact assessment for the Child Maintenance and Other Payments Act, 2008 [3] of which the new simplified calculation was a small section of a much broader set of reform packages.

Summary table

80. Annual costs and benefits stated in this table relate to the post transition steady state where just the future scheme calculation and IT are implemented i.e. impact 1 on the diagram above. They are stated in 2011/12 constant prices.
81. Costs listed to one parent in respect of maintenance liabilities will have the equal and opposite benefit to the other parent. This is because all child maintenance received from a non-resident parent is paid to the parent with care under current and proposed regulations¹. Strictly, however, the costs and benefits because of changes in child maintenance liabilities will only be a cost to one and a benefit to the other if the non-resident parent is compliant with their payments.

Summary of Option 2 (Calculation Regulations Implementation) Costs and Benefits

Policy	Government - Commission	Government – other departments	Parents	Employers
Gross weekly income and new percentages	<p>Costs through:</p> <ol style="list-style-type: none"> Delivering a new IT system: £89m (£248m investment but £159m sunk) and average £7m on-going annual costs². <p>NOTE: these figures include HMRC investment costs of £7m and annual running costs of £0.3m to supply the data, which are borne by the Commission.</p> <ol style="list-style-type: none"> Periodic case reviews will cost around £44m annually. Likely additional appeals cost of £5m annually. Training staff. Changes to communications (internal / external). Small increase in administrative costs to positively assess and maintain student's liabilities and negligible costs where occupations previously exempt and non-resident 	<p>HMRC investment cost: of £7m and annual running costs of £0.3m to supply the data. These costs, met by the Commission, are included in the Commission cost totals presented in the column to the left.</p> <p>Her Majesty's Court and Tribunal Service (HMCTS) cost: Change in volumes of appeals. Likely lower incidence of appeals per decision but more decisions through annual reviews cost of £1.4m annually. Training of judges to understand the</p>	<p>Non-resident parents on a prescribed benefit will pay £5 a week more.</p> <p>Cost to non-resident parents who are students and will have a positive assessment.</p> <p>Costs to non-resident parents in the prescribed occupations whose earnings were previously exempt.</p> <p>With no shared care or relevant other children the maximum difference in weekly maintenance liability will be between £7 less and £19 more.</p> <p>Gross income is simpler and more transparent for parents to understand.</p> <p>The application and calculation process will be quicker, where gross annual income reported by HMRC is available, enabling money to flow sooner and reduce arrears</p>	<p>Use of gross annual income reported by HMRC will ease the burden on employers to supply this evidence leading to annual benefits of £1.4m (best estimate)</p> <p>Related benefits due to improved services including self-service interfaces and employer database enabled by the new IT system.</p> <p>IF DEO regulations are not amended to take account of new calculation: Cost of providing employee net income and payment</p>

¹ Before October 2008 if a parent with care was on certain prescribed benefits then any child maintenance over £10 a week would have been retained by government. However since then all the maintenance has been given to the parent with care. From October 2008 to April 2010 the parent with care would have been subjected to a £20 child maintenance disregard on their benefit and this disregard was abolished altogether from April 2010. Arrears owing from before October 2008 could still be owed to the Government

² Cost is for the full range of costs associated with the development of the new IT system. This figure excludes other costs such as decommissioning the old IT systems.

	<p>parent had no liability.</p> <p>7. IF DEO regulations are not amended to take account of new calculation: Costs of contacting employers to obtain net income and payment frequency information for new scheme DEOs: £1.1m annually post transition, build-up of £9.2m in transition; new scheme IT build costs to allow net earnings and payment period to be recorded: £0.5m.</p> <p>Cost savings through:</p> <ol style="list-style-type: none"> 1. New IT system and link to gross annual income reported by HMRC will enable automatic calculations and reduce the burden on caseworkers needing to contact employers and non-resident parents for information*. 2. Periodic reviews will lead to fewer in-year changes to liability*. <p>*1 and 2 together give annual benefits of £93m (£88m annually for on-going maintenance savings, £5m annually for savings on application processing costs).</p> <ol style="list-style-type: none"> 3. Efficient processes through IT system. 4. Reduction in change of circumstances to be processed. 	new rules.	parents face at the start of the claim.	frequency information to the Commission for new scheme DEOs: £1.5m annually post transition, £13.1m in transition.
Periodical reviews and liability changes for income changes over 25 per cent only			<p>Cost to one parent and benefit to the other of regularly updating the liability as opposed to remaining constant for many years. This keeps the amount being transferred in line with the parent's financial and care situation.</p> <p>If a non-resident parent had a reduction in income of less than 25 per cent there will be a cost to them of not being allowed to update their case until the next periodic review. The converse also applies. This leads to a benefit to parents with care of more consistent liabilities throughout the year.</p>	Costs for more regular amendments of deduction from earnings orders £0.3m annually (best estimate).
Shared Care	<p>Small benefit from reduced time making decisions for assumed shared care.</p> <p>Negligible administrative benefit where equal shared care will result in no statutory maintenance liability.</p>	None	<p>Cost to one of the parents where an assumed shared care decision is made and benefit to the other.</p> <p>Cost to the parent with care and benefit to the non-resident parent where they will have no statutory maintenance liability in the future due to equal shared care changes.</p>	None
Taking family-based	Small cost to record the family-based arrangement.	None	Cost to the parent with care of a reduced statutory	None

arrangements into account			liability. Benefit of a fairer system for non-resident parents.	
Variations	Benefit of using gross annual income reported by HMRC to settle variation applications. Benefits through simplified rules.	None	Benefit of using gross annual income reported by HMRC as evidence reducing conflict and ensuring more accurate liabilities with respect to a non-resident parent's income. Benefits of simplified rules.	None
Definition of a child	Increase in administrative costs for cases where the child is nineteen and qualifies.	Small increase in caseload.	Cost to non-resident parents to pay child maintenance when the child is nineteen and qualifies.	Small increase in caseload.
Reducing volume of regulations	These regulations will reduce the current four sets of regulations covering child maintenance to one containing about a third of the existing volume. This will have benefits to government (for example, The Commission, Tribunal Service, courts) and stakeholders (for example, Citizens Advice Bureau, legal advisers).			
NET IMPACTS	Overall quantified net benefit of £36m annually when policy fully embedded. This comprises total annual recurring benefits of £93m per year offset by costs of £57m (£7m IT, £44m annual reviews and £5m appeals, £1m extra costs if DEO regulations are not changed to take account of new calculation) per year.	HMCTS net cost £1.4m annually		Overall net cost to employers of £0.4m annually This comprises total annual benefits of £1.4m offset by costs of £0.3m for more regular updating of DEOs PLUS £1.5m extra costs if DEO regulations are not changed to take account of new calculation.

Impact on public sector

Commission

Costs

New IT system and gross income

82. A new IT system is necessary to deliver value for money savings to the taxpayer, to enable the delivery of the proposed regulations and to improve customer service. The IT system will have links with HMRC to enable income data to automatically feed across and add automation where possible to processes. This data feed includes gross income for the initial calculation and annual reviews as well as additional data needed for variation requests. The new IT system will be used to support other regulation changes though it is presented here as a full cost to this policy.

83. The IT programme build and implementation costs spend relates to the following main areas:

- a. Interfaces – The future system requires the development of a number of interfaces between the Commission and various bodies. The costs relate to the design, build and test of interfaces for HMRC, DWP and credit reference agencies.
 - b. Hosting, Development and Infrastructure – The costs in this area relate to the procurement of the Future System test infrastructure to support the testing of the Future System as well as the procurement of production environments which will be paid for over a number of years.
 - c. Telephony – these costs are required to provide the technical infrastructure for data networks and telephony business requirements.
 - d. Management Information development – These costs relate to the development and testing of a Future System Data Warehouse.
 - e. Licence Maintenance – There are a number of software licences required for the Future System and there are costs associated with the maintenance of these licenses.
84. The total investment cost for the new IT system is £248m. The IT development programme design and build costs already incurred or contractually committed to are £159m in total.
85. The expenditure already incurred or committed to on the IT development programme is not relevant at this stage in deciding whether to implement the Child Support Maintenance Calculation Regulations 2012. Therefore for the purposes of assessing costs and benefits in this impact assessment the relevant IT expenditure to consider is £89m investment (£248m - £159m) and £7m ongoing costs post implementation.³ Without this further investment expenditure, it will not be possible to implement the Child Support Maintenance Calculation Regulations 2012, launch the new scheme and realise the associated benefits.
86. Investment costs to HMRC of £7m (most of which is sunk) and on-going maintenance costs estimated at £0.3m annually are being met by the Commission and are included in the Commission cost totals here.

Annual reviews

87. The introduction of annual reviews will mean an increase in the cost of maintaining cases since at present there is no systematic case review process and many cases go years without reviews. When the policy is fully embedded there will be around a million annual reviews. The cost, assuming a constant caseload of 1.1 million is £44m annually (i.e. we estimate the unit cost of an annual review at £40). This cost enables benefits in the form of fewer in-year changes of circumstance to be achieved.

Effect on appeals

88. The introduction of annual reviews will result in an increased volume of appealable child maintenance decisions made each year. However, simplification of the rules and use of evidence from HMRC could lead to a reduction in the likelihood of an appeal being made per maintenance decision. There are no new appeal rights introduced with these regulations.
89. It is estimated there would be an increase in appeal volumes arising from these regulation changes in the region of 10,000 annually when the policy is fully embedded.⁴ Each appeal which makes it fully through the Tribunal Service costs the Commission in the region of £500 currently. In the future, due to better data from HMRC to support calculations this cost should decrease. In these costs a 10% reduction is incorporated giving an overall cost of £5m annually in the long term.

Other changes

90. There will be costs to the Commission in training staff to implement the new calculation methodology. There will be costs to change internal and external communications, for example, letters, leaflets and website. There will be costs to understand new systems and processes.

³ Part of the ongoing costs of running the IT systems (network and hosting) are reflected in the unit costs of maintaining cases.

⁴ The increase in appeal volumes comprises volume changes due to systematic annual reviews of all cases and the change to in-year changes of calculation only being implemented if the non-resident parent's income changes by more than 25 per cent.

91. There will be a small cost to the Commission to treat students in the same manner as other clients through the additional administration and maintenance of the case compared to the current policy of applying a nil liability and this is reflected in the unit costs for the application.
92. There will be a small cost to the Commission to treat children in family-based arrangements as qualifying children since evidence will be required to confirm the existence of these arrangements.
93. Wages from occupations currently disregarded will be included in gross income under these regulations which may result in a small cost to the Commission through additional administration. These are largely secondary occupations however, so in a lot of cases there may be no additional costs.
94. Raising the upper age limit of a qualifying child from nineteen to twenty will result in 13,000 extra children benefiting each year. This change will incur a small cost in maintaining the cases involved which would otherwise have closed.
95. All of the other changes, for example, changes to the percentage rates used, should not result in costs to the Commission.

Effect on operation of deduction from earnings orders

96. A DEO imposes a legal obligation on an employer to deduct maintenance from a non-resident parent's wages while ensuring a proportion of net income is retained. With the use of gross annual income reported by HMRC for the maintenance calculation, the Commission will no longer hold the net income information it needs under current regulations to instruct an employer on the frequency of deductions (weekly/monthly etc.) or to calculate the protected proportion/rate. Without regulatory change the Commission will incur costs in obtaining net income information from employers and impose costs on the employers in doing so.
97. The proposed Child Support Collection and Enforcement (Amendments) Regulations 2012 will change the way in which protected income is defined (from a net income amount to a percentage of gross income) and the format in which deductions are requested (negating the need for contact between the Commission and employers), thus avoiding these costs. The Government is consulting separately on these regulations.
98. As this IA assesses costs and benefits of introducing the new calculation and IT while excluding the impacts of other planned policy changes, the costs which would be incurred if DEO regulations were not amended are included here. The practical effect of regulation change in avoiding these costs will be shown as a mirror image benefit in the impact assessment for the Child Support Collection and Enforcement (Amendments) Regulations 2012.
99. The following paragraphs outline the costs to the Commission of administering DEOs on the new scheme without relevant regulatory change.

Changes to IT systems needed to record net income for new scheme DEOs

100. Without the introduction of the Child Support Collection and Enforcement (Amendment) Regulations 2012, the Commission would need to amend the new scheme IT build and computing logic to allow net earnings and payment frequency information to be stored and used when issuing DEOs on the new scheme. This would enable the Commission to issue new scheme DEO notifications in the same format as for current scheme DEOs, with the protected earnings proportion stated as a monetary amount and the deduction amount stated for the NRP's actual payment frequency.
101. Cost of this change is estimated as **£0.5m**. This cost assumes that the change could be implemented in the new scheme IT development programme without delaying the launch of the new scheme.⁵

Obtaining net earnings and payment frequency from the employers for DEOs

102. The Commission would need to contact an employer to check the NRP's net income and payment frequency each time a new scheme DEO was set up (or re-issued due to a change in assessment). On the current schemes this information would usually be available at the point of

⁵ There is a risk that the IT changes would not be achievable in the time available. If the changes could not be made in time, this would mean a delay to the new scheme launch date. A delay of six months to new scheme launch would have significant costs associated with IT contracts (and other new scheme costs including staff costs) in the region of £10m. In addition, the delay would mean some of the net benefits associated with the new scheme would not be realised within the 20 year time period for the impact assessment.

setting up a DEO, having been collected and entered on the IT system at the maintenance calculation stage prior to the DEO process beginning.⁶ On the new scheme only gross annual income reported by HMRC will have been recorded on the computer system.

103. The cost to the Commission in having to contact employers for employee net income and payment frequency information is estimated to be in the region of **£1.1m annually** in the post transition stage when all cases are on the new gross income scheme.

104. The £1.1m arises from the following estimates:

- 197,000 employer contacts annually on new scheme:
 - 65,000 new deduction from earnings orders annually.
 - 29,000 re-issues of DEOs within year because of income changes greater than 25%⁷
 - 103,000+ re-issues of DEOs resulting from annual reviews leading to revisions to the amount of maintenance due.
- Commission costs of £5.49 per employer contact on new scheme:
 - It is assumed that the Commission would spend half an hour obtaining net earnings and payment period information from an employer for each DEO. This is based on CSA management estimates of the average time required to complete an equivalent task when non-productive time (leave, sickness, training, miscellaneous time etc) is factored in.
 - The activity is undertaken by an administrative officer with an hourly wage rate of £10.98⁸

105. The annual costs would build up over 20 years as current scheme cases close naturally and the new scheme caseload builds up. Table 1 below shows how the volumes would build up over time (starting from 2019-20, for display convenience purposes) assuming a flat profile for the volume of DEOs on current and new schemes.

Table 1: Build up of DEOs requiring employer contact for using net income information and associated Commission costs

	....	19-20	20-21	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32
New DEOs														
Issued annually	....	65	65	65	65	65	65	65	65	65	65	65	65	65
Current scheme DEOs	....	36	33	29	25	22	18	14	11	7	4	0	0	0
New scheme DEOs requiring employer contact (a)	....	29	33	36	40	43	47	51	54	58	61	65	65	65
Reissued DEOs - with income change > 25%														
Issued annually	....	29	29	29	29	29	29	29	29	29	29	29	29	29
Issued on current scheme DEOs	....	16	15	13	11	10	8	6	5	3	2	0	0	0
New scheme DEOs requiring employer contact (b)	....	13	15	16	18	19	21	23	24	26	27	29	29	29
DEOs likely to show income change if annually reassessed														
All DEO cases with income changes	....	103	103	103	103	103	103	103	103	103	103	103	103	103
Current scheme DEOs	....	57	51	46	40	34	29	23	17	11	6	0	0	0
New scheme DEOs requiring employer contact (c)	....	46	51	57	63	68	74	80	86	91	97	103	103	103
Total volume of employer contacts required (a + b + c)	....	87	98	109	120	131	142	153	164	175	186	197	197	197
Total annual cost - £'000s	....	£480	£540	£600	£660	£720	£780	£840	£900	£960	£1,000	£1,100	£1,100	£1,100

106. The cumulative costs over 20 years without any bulk case closure process are estimated at **£12.9m** at current prices.

Benefits

New IT system, gross income and in-year limit of 25 per cent income differences before a change of calculation will be implemented

107. There will be reductions in the cost to administer cases under the new scheme, both in processing applications and reduced cost to maintain cases.⁹

⁶ As a minimum net income information is available on current schemes. Payment frequency may sometimes not be available.

⁷ The new scheme threshold for within-year re-assessments due to income change is 25%.

⁸ The wage rate represents the marginal activity cost associated with contacting employers for DEOs. The marginal cost is considered more appropriate in this context than a fully loaded unit cost (including salary, pension contributions, as well as non staffing related costs such as IT and estates, expenses, travel etc) i.e. it is assumed that the same number of staff would be occupied with other productive activity if not contacting employers for net income information.

108. The IT system will automatically retrieve gross annual income reported by HMRC and perform the calculation. This will reduce the administrative time taken by case-workers who, under the current policy, spend significant periods of time obtaining net income details from non-resident parents or in many cases, their employers.
109. It is estimated that the level of employer contact could reduce from around 180,000 contacts annually to a very small number, 3,000 (refer to Appendix B for further details). This is in relation to activity other than that which would be needed for the administration of DEOs without regulatory change to take account of the gross income.
110. There will be a smaller volume of re-calculations of maintenance liabilities due to in-year income changes. This will be because only income changes of more than 25 per cent will result in a re-calculation compared with the 5 per cent limit currently used. In-year changes are currently costly to administer since they involve obtaining the current income from the non-resident parent or employer, calculating the net income and then performing the calculation, determining a payment schedule and involve possible disruption to the continuity of payments which the parent with care receives. This change allows the Commission more control over case maintenance since it will be dictating when the liability changes should occur, that is, primarily at the annual reviews.
111. The new rules will reduce costly in-year changes by between 100,000 to 200,000 per year. This reduction in changes is possible because of annual reviews. Without annual reviews on cases, introducing the 25 per cent income change rule would mean child maintenance liabilities would become very out of date and not reflect a non-resident parent's income for, potentially, many years.

A. Applications:

112. The simplified calculation using gross annual income reported by HMRC will result in an application cost of around £50 less compared to the current rules in 2011/12 terms¹⁰ in the post-transition steady state. If the annual volume of new applications remains constant at around 100,000 a year then this will present savings of around £5m annually.
113. The reduction in the application cost includes reduced contact time required with employers through the use of HMRC data.

B. On-going maintenance of cases

114. It is estimated that it will cost around £80 less to maintain a case annually under the new scheme, including reduced contact required with employers at case assessment stage and reduced changes of circumstances due to income changes.¹¹ Assuming a constant 1.1 million caseload the overall benefit is £88m annually. This is enabled by the introduction of annual reviews which are a cost to offset this benefit. The net benefit of maintenance offset by the annual reviews is £44m annually.
115. The combined benefits of the new IT system link to income data directly from HMRC, together with reduction in in-year changes to liability because of periodic reviews will lead to annual benefits of £93m (£88m annually for on-going maintenance £5m annually for applications).

Other changes

116. There will be a small cost saving through reduced administration time where the Commission makes an assumed shared care decision. In addition there will be a reduced administrative burden in a small number of cases where care is shared equally and the Commission will impose no statutory maintenance liability. There will be benefits of improved automation, client services and processes.
117. Variations are a source of tension between parents and the Commission as the process currently involves attempting to estimate income or coming to an agreement on variations to both parents concerned. Inevitably one of the parents will not be content with the outcome and this can often result in an appeal or complaint being raised. The proposals on variations will reduce the administrative time case-workers spend dealing with variations through calls and reaching agreements since actual income data from HMRC will be used in a lot of cases. This will not only

⁹ These benefits will be realised only if the remaining (not sunk) IT investment expenditure is undertaken. This expenditure is necessary to implement the Child Support Maintenance Calculation Regulations 2012 and launch the new scheme. Therefore the costs associated with the IT investment and the recurring benefits which can be realised from this investment are both identified in this impact assessment.

¹⁰ Estimated using the Commission Corporate Planning Model. Does not include the extra costs of contacting employers if DEO regulations are not aligned to gross income.

result in reaching an outcome on variation applications quicker but also result in less conflict between the parents and the Commission where currently caseworkers are caught in the middle and fewer appeals and complaints being raised.

118. Since the rules are easier to understand and administer variations will be understood better and easier to administer.

Her Majesty's Revenue and Customs

Costs

119. There is an investment cost of £7m and annual maintenance costs of £0.3m for the IT link between the Commission and HMRC which is being met by the Commission as detailed above.

Her Majesty's Court and Tribunal Service

Costs

120. The introduction of annual reviews will mean an increase in the volume of appealable child maintenance decisions made each year. However, simplification of the rules and use of evidence from HMRC should lead to a reduction in the likelihood of an appeal being made per decision. There are no new appeal rights introduced with these regulations.
121. Post transition the volume of appeals to HMCTS is estimated at 9,000 per annum at a unit cost of £256. Under the current rules the volume of appeals to HMCTS is around 3,000 per annum at a unit cost of £285. This gives an overall increase in the cost once the policy is fully embedded of around £1.4m.
122. There will be small training costs to enable between 80 to 100 judges to understand the new rules.

Impact on employers

Costs

Annual reviews and in-year changes – effect on deduction from earnings orders

123. Employers have a legal obligation to impose a DEO when requested by the Commission either when a non-resident parent asks to use this method of payment or, often, where a non-resident parent is not compliant with their maintenance liabilities and enforcement action is required. Where the employer is the Ministry of Defence the Commission will use a deduction from earnings request (DER) instead. In the year to March 2011 there were 140,125 CSA cases charged via a DEO or DER [8] which equates to around 130,000 DEOs in total. This is because when a non-resident parent has more than one case, a single DEO is imposed to cover the deductions for each.
124. Currently around 50,000 micro employers¹² operate DEOs and most of these will operate only one DEO. There are around 30,000 other employers with 10 or more employees who operate DEOs and these account for around 80,000 DEOs.¹³
125. With the introduction of annual reviews, employers will face a small cost to adjust the amounts deducted from wages more frequently than under the current policy, though this is offset to some degree by a reduction in the in-year changes which will occur. Currently some liabilities continue unchanged for many years.
126. The estimated cost to change a DEO is £3.60 for a micro employer and £1.80 for other employers. At present there are about 40,000 (25k micro, 15k other employers) changes to DEO values throughout a year because of changes to income. Under the proposed policy this is likely to increase to around 140,000 (90k micro 50k other employers) changes per year – a large increase due to annual reviews being partly offset by fewer in-year changes. In-year changes will only be

¹² Throughout this impact assessment the term micro employer refers to one with less than 10 employees

¹³ i.e. 50,000 DEOs are imposed by micro employers, most of whom will have only one to deal with and 80,000 DEOs are imposed by larger employers many of whom will have more than one to deal with.

actioned if income changes by more than 25 per cent. The best estimate of this cost is £0.3m per annum:¹⁴

Size of employer	Cost (pa)
Micro	£0.2m
Others	£0.1m
Total	£0.3m

Effect on operation of deduction from earnings orders

127. As outlined in the section on Commission costs, without regulatory change the new scheme will involve extra costs to employers in the operation of DEOs. The extra costs the Commission would impose on employers in requesting the necessary net income information to set up a DEO are outlined in the following paragraphs.
128. As with the Commission costs in this regard, the costs to employers outlined here will be avoided by changing DEO regulations. The impact of doing so for employers will be shown as a benefit (mirroring the costs outlined here) in the impact assessment for the proposed Child Support Collection and Enforcement (Amendments) Regulations 2012.

Employer requirement to supply net earnings and payment frequency for new scheme DEOs

129. The best available estimate of the cost to employers of providing net income information to the Commission for DEOs is that it would be around **£1.5m** annually in the post transition stage when all cases are on the new scheme.
130. The £1.5m splits into around £1.25m for micro employers and £0.25m for other employers.
131. The £1.5m is estimated as follows:
- 197,000 DEO related contacts annually from the Commission split between 122,000 for micro employers and 75,000 for other employers;
 - Half an hour of staff time for a micro employer to respond once contacted by the Commission for net income information: retrieve a fax, complete the form and return to the Commission. Likely to take 20 minutes for larger employers to complete this activity since more likely to have experience with the CSA and more likely to have payroll software to easily find the information.
 - Micro employer costs of £20.90 an hour (Annual Survey of Hours and Earnings, 2010 updated to 2011/12, median manager's salary). Larger employer costs of £10.70 an hour (Annual Survey of Hours and Earnings, 2010 updated to 2011/12, median administrator's salary). Assuming that larger employers more likely to have administrators than micro employers.
132. Under these assumptions, over 20 years the costs to employers of being required to supply information for new scheme DEOs would be around **£17.7m** (at current prices) including the period of the new scheme building up and cases closing from the existing schemes. This breaks down to around £14.65m for micro employers and £3.05m for others.

Benefits

Use of HMRC income data

133. Under the current policy the Commission contacts employers to verify the net income of non-resident parents for the calculation in a large number of cases. This could be either to make an initial calculation or because of a notification of a change of income. Use of gross annual income reported by HMRC will reduce this burden.

¹⁴ See annex b for more detail.

Improved IT and service delivery for employers

134. The existing structure and systems, with no central employer database or employer team can result in employers receiving multiple calls from CSA staff with queries relating to DEO payments, this can be several times a day as DEO schedules can have several hundred (and even thousands) of entries. This results in a burden to larger employers [11].
135. The new IT system provides a basis for improving the service received by employers when administering DEOs (i.e. post the set up costs described in paragraphs 127-132) which could not have been achieved under the previous IT system. The key improvements are:
- Populated schedules:
Currently employers must complete and return a schedule which could contain deductions relating to many non-resident parents with any cheques or BACS payments. This can be a time-consuming activity. The new IT system enables populated schedules to be issued reducing the time burden for employers.
 - Self service:
Employers will be able to access a web self-service to return schedules, saving time and postage costs.
 - Employers database, specialist employer team, employer account manager and employer helpline
If there is a problem with a schedule containing several DEOs the employer can be contacted by caseworkers several times. There is no central record of employers contact details at the CSA. The new IT structure will allow a central database of employers accessed by a specialist team which will ease the burden on employers and improve employers' experience with the Commission.
 - Automatic reconciliation
Currently if the amount received on a DEO by the Commission is not the amount demanded then the payment will not go to the parent with care and there could be several 'phone calls to the employer to reconcile the payment and understand why the parent with care has not been paid. The new process will enable those using the self-service to report how much they have sent the Commission and, if not the demanded amount, why the difference. As long as the amount received corresponds with the employer's schedule of payments, payments will automatically go to the parents with care. The process to understand any differences will not require as many calls to employers thus reducing burden on them.
136. The estimated costs to employers to supply income information at application stage (or respond to post set-up DEO information queries) are £10.50 for a micro employer and £3.60 for all other employers. Currently the Commission makes around 180,000 such contacts with employers annually (110k micro, 70k others). Under the proposed policy this volume of contacts will reduce significantly (to around 3,000) giving a cost saving of £1.4m per annum.

Size of employer	Cost (pa)
Micro	-£1.2m (-£0.9m to -£1.2m)
Others	-£0.2m (-£0.2m to -£0.3m)
<i>Total</i>	<i>-£1.4m (-£1.1m to -£1.5m)</i>

One-in, One-out

137. The cumulative total present value of costs to business over the 20 year time period for this IA and the net costs per year on an equivalent net cost to business (EANCB) basis period are detailed in the table below:

	20 year cumulative costs/benefits (Present Value) £m	Cost/benefit per year (EANCB on 2009 prices) £m
Costs		
Amending DEOs more regularly	2.2	0.1
Employers administrative costs without change to DEO regulations	11.3	0.8
Total costs	13.5	0.9
Benefits		
Employers – reduction in information supply burden	11.9	0.8
Net cost to business per year		
As per the costs and benefits in this IA		0.1
If DEO regulations are changed		-0.7
Business net present value		
As per the costs and benefits in this IA	-1.6	
If DEO regulations are changed as per IA for Child Support Collection and Enforcement (Amendments) Regulations 2012	9.8	

138. The cost to business of amending DEOs more frequently than under the current policy because of annual reviews, partially offset by a reduction in the number of in-year changes is estimated at £2.2m.
139. The cumulative benefit over 20 years of reducing burdens on business by the Commission using gross annual income reported by HMRC rather than contacting employers under the current policy is estimated to be £11.9m.
140. There are substantial extra costs if DEO regulations are not amended, totalling £11.3m over 20 years.
141. As this IA assesses costs and benefits of introducing the new calculation and IT while excluding the impacts of other planned policy changes, the costs associated with not changing DEO regulations are included here. The overall business net present value is therefore shown as -£1.6m. This equates to an equivalent annual net cost to business (EANCB) of £0.1m for One-in, One-out purposes.
142. This IA should not however be seen in isolation for One-in One-out purposes – it is only the structure of the legislative changes needed that have required the separation into two sets of regulations and associated IAs. It is intended that the associated required amendments to the operation of DEOs will be introduced with the proposed Child Support Collection and Enforcement (Amendments) Regulations 2012. These regulations will come into force at the same time as the Child Support Maintenance Calculation Regulations 2012 and form part of an integrated policy package.
143. If the extra costs to employers in the operation of DEOs are avoided through the introduction of Child Support Collection and Enforcement (Amendments) Regulations 2012 alongside the Child Support Maintenance Calculation Regulations 2012, the business net present value will be £9.8m. This equates to an equivalent annual net saving to business (EANCB) of £0.7m for One-in, One-out purposes.
144. The final equivalent annual net cost to business of the combined child maintenance policy of introducing the new scheme and amending DEO regulations will be seen by adding the relevant figures from the two related IAs. This figure is likely to represent a saving to business of £0.6m per annum for One-in, One-out purposes.¹⁵

¹⁵ This figure is based on estimates from the consultation stage IA for the proposed Child Support Collection and Enforcement (Amendments) Regulations 2012. Estimates may be revised post consultation.

Improved service delivery for clients

145. Under the new scheme there are likely to be lower levels of cases with arrears and increased use of direct debits due to the enhanced collections and payments functions which will be in place. This will reduce the volume of DEOs which are implemented on cases and therefore reduce the burden on employers.

Impact on parents

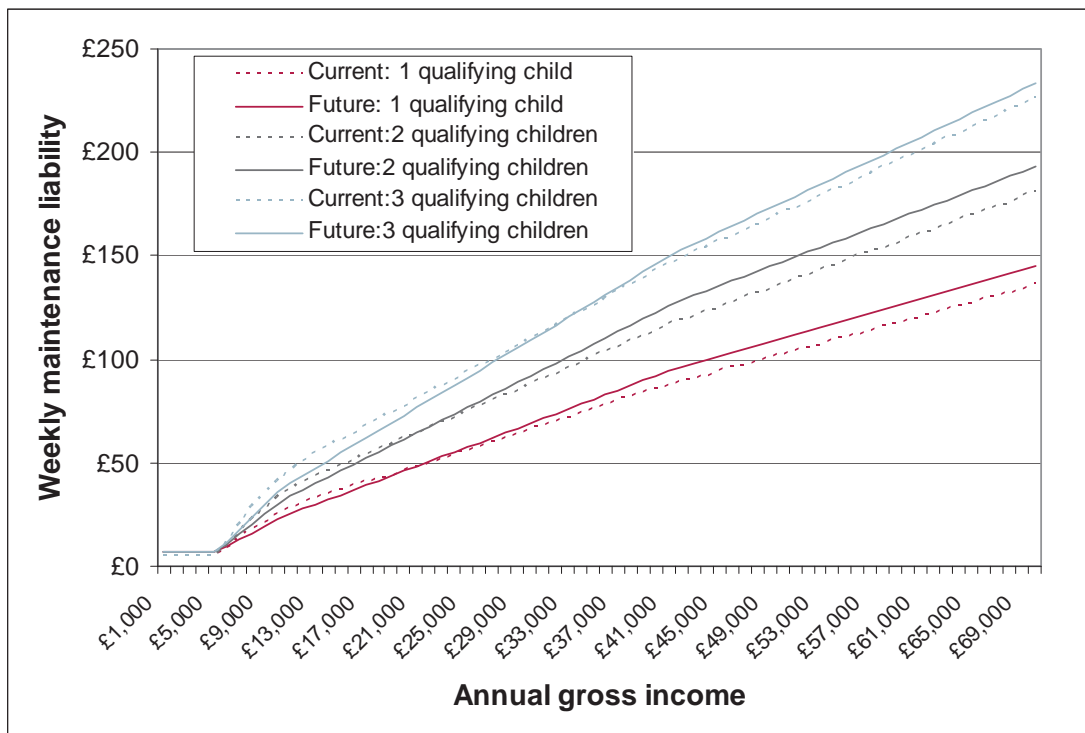
Costs

146. The proposed percentages of gross earnings and the rates which will be used in the calculation are designed to align with the current percentages and rates used for net income. Graph 1 compares the current and proposed weekly liabilities where there are no relevant other children and the non-resident parent has no shared care of the qualifying children¹⁶. This graph compares earnings only, that is, tax credits and other income is not included in the current weekly liability.

147. The difference in the weekly liability between the current calculation and the proposed calculation methodologies where there are no relevant other children or shared care, as illustrated in Appendix A, is between -£4 to £14, -£4 to £19 and -£7 to £15 a week where there is one, two and three qualifying children respectively.

148. Cases with shared care will see a smaller difference in their liabilities and those with relevant other children may see larger differences as illustrated in Appendix A.

Graph 1: Current and proposed weekly liability where there are no relevant other children and no shared care



Nil rate

149. The rules for a case to be given the nil rate remain unchanged between the current and proposed regulations with the exception that students will no longer qualify for this rate. There are an estimated 1,000 to 2,000¹⁷ of the current non-resident parents who are students. Of these around a fifth will not be working and will still be nil assessed while the rest will be working for a combination of term and / or vacation time where they will be positively assessed whilst in work. Those in work are likely to be assessed for around £9 in term time and £27 in vacation time based on average

¹⁶ Tax and national insurance throughout is based on 2012/13 rates and rules estimated by uprating 2011/12 actuals.

¹⁷ Internal analysis of data and internal survey.

wages from GfK's NUS / HSBC Students Research [13] and assuming each has one qualifying child and no shared care.

Flat rate

150. Currently if a non-resident parent has a net income of less than £100 a week or is in receipt of certain prescribed benefits they will be assessed at the flat rate of maintenance of £5 a week. Under the regulations proposed if the non-resident parent has gross income of less than £100 a week they will still be assessed at the flat rate though this will be at £10 a week.
151. A gross income of £100 a week is below the personal allowance in the tax system so all cases which are flat rate under existing regulations will be so under the proposed regulations and vice versa.
152. When the flat rate was initially set at £5 in 2003/4 this amount represented 9% of the weekly contributions based Jobseeker's Allowance for over 25s of £54.65 a week. An increase to £10 will further increase the amount of money flowing to children and will more closely reflect the proportion of their income which NRPs in work are required to pay. The flat rate maintenance will be set at £10 per week when the new scheme opens to all new applicants. Until then it will remain at £5.

Reduced rate

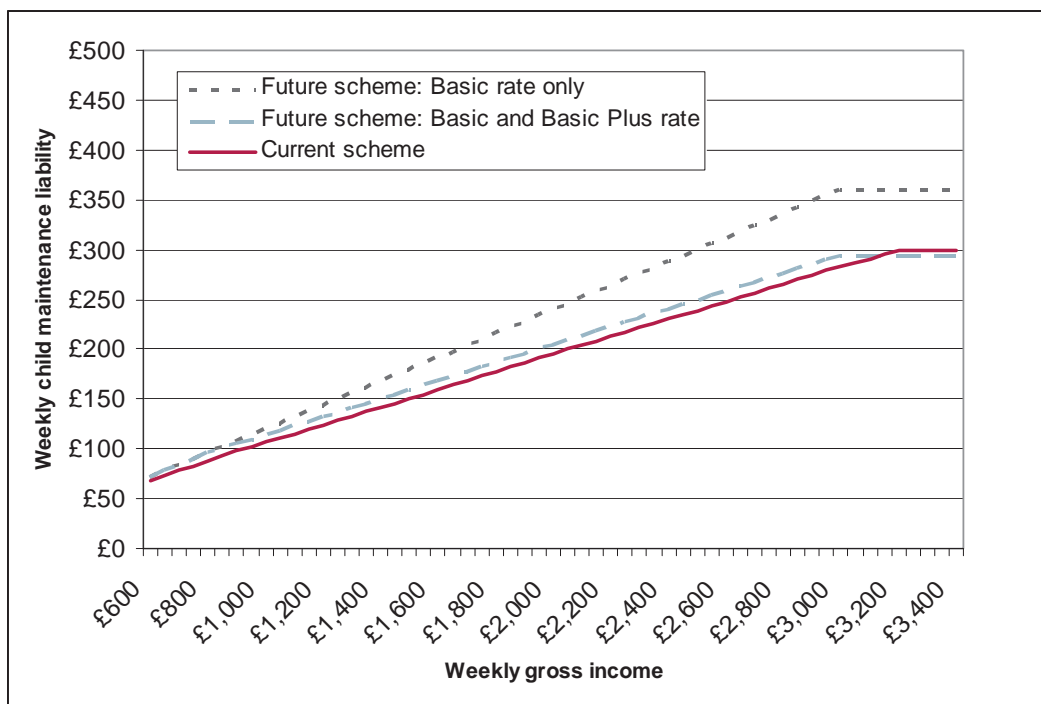
153. Under the current scheme if a non-resident parent has a net income between £100 and £200 a week then they will be given a reduced rate assessment. Under the proposed regulations the reduced rate is applicable for those who have a gross income of between £100 and £200 a week. Those non-resident parents who earn between £200 and £237 a week gross income would have been on the reduced rate under the current scheme but will be on the basic rate in the proposed scheme. The reduced rate provides a smooth transition from flat rate to the basic rate and as such there will be no real effect on child maintenance assessments.

Basic and basic plus rate

154. Under the current policy the basic rate is applicable to all those with more than £200 a week net income. Under the proposed policy the basic rate is applicable for those with a gross income of between £200 and £800 a week gross income and a basic plus rate will be introduced for those earning more than £800 a week.
155. The basic plus rate is being introduced directly as a result of the change from net income to gross income to align those who pay the higher tax rate with the current policy by applying a smaller proportion of income for child maintenance above £800. Less than 5 per cent of existing non-resident parents earn more than £800 a week¹⁸. Graph 2 demonstrates the proposed calculation with the basic plus rate compared to just the basic rate to demonstrate its purpose in a case where there is one qualifying child, no relevant other children and no shared care. The new calculation with basic and basic plus aligns far more closely with the current scheme calculation than new scheme without the basic plus rate.

¹⁸ Analysis of CSA data and DWP national insurance data.

Graph 2: Current and proposed weekly liability, including and excluding the basic plus rate, where there is one qualifying child, no relevant other children and no shared care



156. Over the basic rate range, where a case has 1 qualifying child and no relevant other children there will be a cost because of the proposed changes to parents with care where the non-resident parent has incomes of up to £370 gross income a week and a cost to non-resident parents over this amount. With 2 qualifying children the cost to parents with care is for incomes up to £350 gross income a week and with 3 or more qualifying children the equivalent figure is £530 a week with the cost to non-resident parents occurring over this limit.
157. Under the existing scheme where there are relevant other children and the non-resident parent is on the basic rate, a reduction of either 15%, 20% or 25% is made to their net income to obtain the income from which the liability is calculated. The liability for the qualifying children is then calculated as 15%, 20% or 25% of the remaining income. The original proposal is to amend the percentages of the reduced rate deduction to 12%, 16% and 19% in line with the same liability percentages for the qualifying children.
158. As a result there is a slight bias towards the relevant other child(ren). For example, with an income of £300 and one relevant other child and one qualifying child, £36 is deducted for the relevant other child (12% of £300) leaving an income for the calculation of £264. From this the child maintenance liability is £31.70 (12% of £264). There is a difference of £4.30 between the amount allocated for the relevant other child and the qualifying child.
159. To align the amount of money reduced for relevant other children with that in the qualifying child liability, these regulations will change these percentages for the new scheme to 11%, 14% and 16% of gross weekly income respectively.

Income cap

160. Under the current scheme there is an income cap of £2,000 net income a week and under the proposed regulations this cap will be set at £3,000 gross income a week. Under expected 2012/13 tax rules £3,000 gross income equates to £1,870 net income. Therefore there is a slight discrepancy which leads to cases which are not subject to the income cap under the current policy being capped under the proposed calculation. This can be seen in graph 2 and results in a small cost to parents with care who have non-resident parents with a weekly gross income over £3,150. This will affect only a very small number of cases.

Gross income

161. The percentages have been designed to align as closely as possible with the current rules. However, there will always be difficulties directly translating from net to gross earnings so there is no perfect solution. Inconsistencies may be caused if the tax or national insurance systems change substantially, for example, the emergency budget changes for 2011/12 have not been included above, or if the non-resident parent is not paying tax or national insurance at the PAYE levels, for example there may be differences for self-employed clients.
162. Tax credits will not be included in gross income in the proposed regulations though this is included in net income at present. This could lead to costs to the parent with care where a non-resident parent has income comprised largely of tax credits. These non-resident parents will be those who have children living in their household for whom child tax credit is paid and / or those who are in low-paid work and entitled to working tax credit.
163. The Commission estimates that just under a third of non-resident parents may be entitled to some tax credits though not all of these would necessarily be claiming them. Some of these non-resident parents may also be on the flat rate of child maintenance so exclusion of tax credits would make no difference to the liability amount. It is estimated that this policy could affect in the region of 100,000 of the current caseload at an average of £6 a week¹⁹.
164. The inclusion of income from occupations currently disregarded in the maintenance calculation at present, for example auxiliary coastguards, will result in a cost to non-resident parents through increased liabilities.

Shared care

165. There will be a small cost to one of the parents where parents cannot reach an agreement over shared care arrangements and the Commission will assume one night.
166. There will be costs to the parent with care in cases where care is shared equally since there will be no child maintenance liability under the proposals. The Relationship Separation and Child Support Study [7] indicates that in less than 1 per cent of CSA cases the non-resident parent has overnight care for more than 175 nights a year which would qualify as equal shared care.

Variations

167. HMRC data will be used to provide evidence for many variation applications. This may lead to a difference in the maintenance liability than would be the case under the current regulations. The cost could be to either parent though on the whole there are likely to be more variations supporting the parent with care's position.
168. Parents with care will see a cost where a non-resident parent has an empty property which is not generating an income. Under the current regulations a notional amount would apply based on the equity in the property.
169. Some non-resident parents may see a cost due to the removal of the lifestyle ground. This is because the Commission will capture non-resident parents' (NRPs) actual unearned income data through HMRC and thus producing a higher assessment than that if the assessment was based on the non-resident parent's lifestyle.
170. Non-resident parents will see a cost where they or their partner are in receipt of working tax credits and the parent with care applies for a variation to take account of their additional income. The current scheme does not allow a parent with care application in these circumstances.
171. Allowing contact costs as well as a reduction in maintenance for shared care during the same period will result in a small cost to the parent with care, although case scenarios have shown that the difference in liability is minimal.

Annual reviews and in-year changes

172. Regular reviews will mean child maintenance is updated more often than under the current policy and this change in liability could lead to a cost to either the parent with care or non-resident parent.
173. Under the proposed regulations a non-resident parent who experiences an income increase or decrease of less than 25 per cent cannot amend their child maintenance liability in-year. This would

¹⁹ Analysis based on CSA data (Quarterly Summary Statistics and internal data), Families and Children Study 2008, HMRC: Child and Working Tax Credits Statistics – Finalised annual awards 2008-9, Households Below Average Income Series: 2008-9.

result in either a cost to the non-resident parent (if their income decreases) or parent with care (if their income increases). This would be rectified at the annual review and over the life of a case may even out.

Benefits

174. Using gross annual income reported by HMRC will be a benefit to non-resident parents on the new scheme by reducing the burden on them to supply income evidence, though it should be recognised that if a non-resident parent's income is more than 25 per cent different they will still have to provide the information.
175. There will be a benefit to both parents through the reduced time to reach a decision on the child maintenance liability so money will flow sooner to the parent with care and non-resident parents will not have as large a backlog of arrears at the point the Commission requests payment. In addition the maintenance liability will be regularly updated ensuring there is a benefit to both parents of a child maintenance liability reflecting recent income data.
176. There will be a benefit to both parents through the use of HMRC data to make decisions on variation applications. The rules will be simpler and evidence will be based on actual income rather than estimates as would happen at present. Decisions will be reached quicker enabling the correct maintenance to flow quicker and should reduce the stress parents may face with the variation process at present.
177. There will be benefits through reduced conflict in cases where shared care is assumed and also where there is equal shared care since the regulations are making these rules fairer.
178. There will be benefits to both parents through the introduction of a self-service and more regular and comprehensible statements.
179. The remaining benefits to parents are due to the difference in the level of the child maintenance liability. There is insufficient robust evidence about the household income of parents with care and non-resident parents currently using the statutory scheme so the Commission does not attempt to re-weight the costs and benefits from the transfer of maintenance from one parent to the other. Therefore £1 to a parent with care equates to the same as £1 to a non-resident parent.
180. Therefore for any cost to parents listed above there is an equal benefit to the other parent. That is, a change in liability is either a cost to the parent with care and a benefit to the non-resident parent or vice versa.

Statutory Equalities Duty

181. A separate equalities impact assessment has been produced which found an overall neutral impact on clients.
182. This document can be found at:

<http://www.childmaintenance.org/en/pdf/Maintenance-Calculation-Regulations-2012-Equality-Impact-Assessment.pdf>

Appendix A

Table A1: Current scheme (post-2003) liabilities per week and the proposed liabilities at different levels of gross weekly income: No shared care and no relevant other children.

Weekly gross income (£)	1 qualifying child			2 qualifying children			3 qualifying children		
	Current scheme rules	Proposed rules	Difference	Current scheme rules	Proposed rules	Difference	Current scheme rules	Proposed rules	Difference
Under 100	5	10	5	5	10	5	5	10	5
150	17	17	0	22	21	-1	27	24	-3
200	26	24	-2	35	32	-3	43	38	-5
220	30	26	-4	39	35	-4	49	42	-7
300	38	36	-2	50	48	-2	63	57	-6
400	48	48	0	64	64	0	80	76	-4
500	58	60	2	78	80	2	97	95	-2
600	68	72	4	91	96	5	114	114	0
700	79	84	5	105	112	7	131	133	2
800	89	96	7	118	128	10	148	152	4
900	97	105	8	130	140	10	162	167	5
1,000	106	114	8	141	152	11	177	182	5
3,000	280	294	14	373	392	19	467	482	15

Table A2: Current scheme (post-2003) liabilities per week and the proposed liabilities at different levels of gross weekly income: One night shared care and no relevant other children.

Weekly gross income (£)	1 qualifying child			2 qualifying children			3 qualifying children		
	Current scheme rules	Proposed rules	Difference	Current scheme rules	Proposed rules	Difference	Current scheme rules	Proposed rules	Difference
Under 100	5	10	5	5	10	5	5	10	5
150	15	15	0	19	18	-1	23	21	-2
200	22	21	-1	30	27	-3	37	33	-4
300	32	31	-1	43	41	-2	54	49	-5
400	41	41	0	55	55	0	69	65	-4
500	50	51	1	67	69	2	83	81	-2
600	59	62	3	78	82	4	98	98	0
700	67	72	5	90	96	6	112	114	2
800	76	82	6	102	110	8	127	130	3
900	83	90	7	111	120	9	139	143	4
1,000	91	98	7	121	130	9	151	156	5
3,000	240	252	12	320	336	16	400	413	13

Table A3: Current scheme (post-2003) liabilities per week and the proposed liabilities at different levels of gross weekly income: No shared care and one relevant other child.

Weekly gross income (£)	1 qualifying child			2 qualifying children			3 qualifying children		
	Current scheme rules	Proposed rules	Difference	Current scheme rules	Proposed rules	Difference	Current scheme rules	Proposed rules	Difference
Under 100	5	10	5	5	10	5	5	10	5
150	15	16	1	19	19	0	24	22	-2
200	22	21	-1	30	29	-2	37	34	-3
300	32	32	0	43	43	0	54	51	-3
400	41	43	2	54	57	3	68	68	0
500	50	53	3	66	71	5	83	85	2
600	58	64	6	78	85	7	97	101	4
700	67	75	8	89	100	11	111	118	7
800	76	88	12	101	117	16	126	139	13
900	83	96	13	110	128	18	138	152	14
1,000	90	104	14	120	139	19	150	166	16
3,000	238	264	26	317	352	35	397	433	36

Appendix B

Estimates	Assumptions	Justification
Volume of micro employers operating DEOs.	50,000	DWP research report 530 [12] states that 5% of micro employers operate a DEO Grossed up by 1,019,605 micro employers with one or more employees in the economy: http://stats.bis.gov.uk/ed/sme/SMEStats2009_corrected_version.xls
	Micro employers mostly operate just one DEO	Evidence from Banking Payments and Assignment Service (BPAS) which processes non-DACT DEOs suggests that around 95% of employers which operate DEOs, have only one. Since micro employers have a maximum of 10 employees it is likely that they will process only one.
Volume of other employers	30,000	Internal estimate that the Commission has 80,000 employers operating DEOs in total.
Cost to employers to make a change to a DEO amount	£3.60 for a micro employer, £1.80 for other employers	Assumption that it takes all employers 10 minutes to action a change. Assume that changes made by micro employers are more likely to be made by the manager and by larger employers is more likely to be an administrator. Median managers hourly wage is £20.90 and administrator is £10.70. (Taken from the Annual Survey of Hours and Earning 2010: http://www.statistics.gov.uk/downloads/theme_labour/ASHE-2010/tab14-5a.xls , uprated to 2011 by average weekly earnings increase of 2% (year to Feb 11) and increased by 12.8% employer's national insurance contributions above the secondary threshold). DWP research report 530 [12] states that: "most employers believed the tasks of setting up and administering DEOs would take less than 15 minutes each" "the majority of employers who did provide an estimate expected the cost of DEO set up and administration to be less than five pounds, although micro companies were more likely to be concerned about costs". Around a third of employers believed these costs to be less than £1. Whereas changing the value of a DEO is not precisely the same activity as setting up or administering a DEO it is doubtful that this will require more time.
Cost to employers to supply income data	£10.50 for a micro employer and £3.60 for other employers	Assumption that it takes around half an hour for a micro employer to supply income information at present and 20 minutes for larger employers with wages as above. The employer is telephoned by the Commission and may spend around five minutes initially talking to a caseworker and retrieving a communication sent by 'fax'. They then need to obtain the income information required, which may be for several payment periods, complete a form and return it by 'fax' to the Commission. Since smaller employers are less likely to have been previously subjected to this process, less likely to have payroll software and more likely to pay weekly so have to provide more information it is assumed it will take longer for a micro employer to complete this process than larger employers.
Cost to the Commission to obtain income	£6.60 per contact	Assumption that it takes an Administrative Officer caseworker between 30 and 45 minutes to contact an employer, talk through the requirements and process the returned documents.

data		
Current level of contacts with employers to verify income	180,000 annually	<p>Assumption that the Commission verifies income in around 80 per cent of employed non-resident parent's calculations. These encompass new calculations, changes to liabilities because of income changes and all DEOs which are set up.</p> <p>Sensitivity analysis has been conducted showing 50 per cent to 90 per cent.</p>
Future level of contacts with employers to verify income	A small number, estimate around 3,000 annually	Internal analysis of DWP national insurance data and CSA data to determine volume with no income in one year but did have income in the subsequent year so gross annual income reported by HMRC would not be available on them.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. If the policy is subject to a sunset clause, the review should be carried out sufficiently early that any renewal or amendment to legislation can be enacted before the expiry date. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p>Basis of the review: [The basis of the review could be statutory (forming part of the legislation), i.e. a sunset clause or a duty to review, or there could be a political commitment to review (PIR)];</p> <p>The impact of the policy changes will be reviewed and monitored regularly as roll-out takes place.</p>
<p>Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p> <p>The new calculation regulations are part of a wider group of policy changes affecting child maintenance. There will be a benefits realisation for the entire change programme which will check the activities in the new scheme are delivering the intended outcomes.</p>
<p>Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p> <ol style="list-style-type: none"> 1. Benefits realisation for the change programme. This will measure, for example, activity and unit costs. 2. Management information will be used to monitor operational aspects of the new scheme, for example, how many clients are using variations, levels of liabilities clients are receiving, volumes of appeals and how many employers are using the self-service. 3. Customer surveys will be used to monitor views of the new scheme.
<p>Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]</p> <p>Activity costs and volumes projected forwards under current CSA regulations. Current management information, such as time taken to process an application or change of circumstance.</p>
<p>Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p> <p>Criteria will include reductions in unit costs for activities such as processing applications and measurement of operational activities such as time taken to process a child maintenance application.</p>
<p>Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection of monitoring information for future policy review]</p> <p>Regular management information will be available from the new IT systems. Customer surveys will be developed.</p>
<p>Reasons for not planning a review: [If there is no plan to do a PIR please provide reasons here]</p> <p>N/A</p>

Impact Assessment (IA)	The Child Support Maintenance Calculation Regulations 2012	
Lead Department/Agency	Department for Work and Pensions	
Stage	Final	
Origin	Domestic	
Date submitted to RPC	04/04/2012	
RPC Opinion date and reference	03/05/2012	RPC11-DWP-1075(3)
Overall Assessment	GREEN	

The IA is fit for purpose. The costs and benefits of the proposed new child support maintenance calculation and IT system have been adequately assessed.

Identification of costs and benefits, and the impacts on small firms, public and third sector organisations, individuals and community groups and reflection of these in the choice of options

We understand that the changes to the Child Support Maintenance Calculations are occurring alongside changes to deduction from earnings orders with the overall policy intended to reduce the burden on business. The IA could benefit from providing a summary of the outcome of the public consultation and views from key stakeholders to confirm the assumptions used in the calculations of the monetised estimates of costs and benefits.

Have the necessary burden reductions required by One-in, One-out been identified and are they robust?

The IA says that the proposal is a regulatory measure that will impose a net cost to business (an 'IN') with an Equivalent Annual Net Cost to Business of £0.1m. This is consistent with the current 'One-in, One-out' methodology and provides a reasonable assessment of the likely impacts.

Signed Michael Gibbons, Chairman