Title:

Amending regulations to align Deduction from Earnings Orders with the new statutory child maintenance scheme

IA No: DWP00025

Lead department or agency:

DWP: Child Maintenance and Enforcement Commission

Other departments or agencies:

Impact Assessment (IA)

Date: 23 July 2012

Stage: Final

Source of intervention: Domestic

Type of measure: Secondary legislation

Contact for enquiries: consultation.responses@childmaintenance.gsi.gov.uk

Summary: Intervention and Options

RPC Opinion: Amber

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**
£19.5m	£11.0m	-£0.8m	Yes	Out

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

As part of a radical reshaping of the child maintenance system a new statutory scheme will be introduced using HMRC-sourced gross annual income data for the child maintenance calculation. The Child support (Meaning of Child and New Calculation Rules) (Consequential and Miscellaneous Amendment) Regulations 2012 include changes to Deduction from Earnings Orders (DEOs) regulations necessitated by the new scheme. DEOs impose a legal obligation on employers to deduct maintenance from a non-resident parent's wages while ensuring a certain proportion of net earnings are retained. With the use of HMRC gross annual income data for the maintenance calculation, the Commission will no longer hold the net income information necessary to inform the employer of the protected net earnings proportion (expressed as a monetary amount) or to instruct an employer on the frequency of deductions.

What are the policy objectives and the intended effects?

1. Amend DEO collection and enforcement regulations to take account of the new gross income-based child maintenance scheme, allowing efficiencies intended for the scheme to be realised.
2. Ensure public expenditure is minimised.
3. Minimise the overall burden on employers following the introduction of the new scheme.

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

1. No change to DEO regulations. New scheme DEOs issued in same format as DEOs on current schemes. Requires the Commission to contact employers to obtain net income and payment frequency information when issuing new scheme DEOs.
2. Amend regulations to avoid need for the Commission to contact employers for net income and payment frequency information when issuing new scheme DEOs. For new scheme DEOs protected earnings proportion stated as a percentage and deductions stated in a range of pay frequencies. The current format is retained for DEOs issued on cases remaining on current schemes.
3. Amend regulations so that DEOs on both current and new schemes are issued in the same new format: protected earnings proportion stated as a percentage, deductions stated in full range of pay frequencies.

Option 2 is preferred. It is the only means by which the efficiency advantages of using HMRC gross annual income can be fully realised while minimising burden on employers.

Will the policy be reviewed?			**If applicable, set review date:**		
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	**Large** 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 Steve Webb Date: 29/09/2012

Summary: Analysis & Evidence

Policy Option 1

Description: No change to DEO regulations. Following the launch of the new child maintenance scheme DEOs issued in same format as DEOs on current schemes. Requires the Commission to contact employers to obtain net income and payment frequency information when issuing new scheme DEOs.

FULL ECONOMIC ASSESSMENT

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

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

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

This is the baseline against which Options 2 and Options 3 are assessed.

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

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

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

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

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5%

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs:	Benefits:	Net:		

Summary: Analysis & Evidence

Policy Option 2

Description: 2. Amend regulations to avoid need for the Commission to contact employers for net income and payment frequency information when issuing new scheme DEOs. For new scheme DEOs protected earnings proportion stated as a percentage and deductions stated in a range of pay frequencies. The current format is retained for DEOs issued on cases remaining on current schemes.

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
2011/12	2011/12	20	**Low:**	**High:**	**Best Estimate:** £19.5m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low		17		
High				
Best Estimate	£0.3m			£0.3m

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

Commission: No extra costs here over those already incurred by introducing the new scheme with the use of HMRC gross annual income information. No extra costs to current schemes.
Employers: Possible one-off £0.28m (£0.15 micro, £0.13 others) cost to employers who receive a new scheme DEO in the immediate period after new scheme launch – they might need to upgrade payroll software in a way that otherwise would be avoided. Possible £0.02m-£0.03m training costs to some employers to understand second set of rules. No extra costs associated with current schemes.

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

Employers: Complication for a small number of employers of understanding and operating existing and new rules at the same time.
Potential but difficult to quantify upgrade costs for a small number of employers who operate customised payroll software.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low		17		
High				
Best Estimate	£22.8m		£2.6m	£19.8m

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

Commission: Avoid need to contact 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; avoid need to make new scheme IT build changes to allow net earnings and payment period to be recorded £0.5m.
Employers: Burden of providing employee net income and payment frequency information to the Commission for new scheme DEOs avoided: £1.5m (£1.25m micro, £0.25m other employers) annually post transition, £13.1m (£10.8m micro, £2.3m other employers) in transition.

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

Employers: Expressing the protected proportion as a percentage rather than a monetary amount could be a net benefit or a net cost to employers depending on the payroll systems they use (but is likely to be a benefit to most).

Key assumptions/sensitivities/risks	Discount rate (%)	3.5

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: **£0.0m**	Benefits: **£0.8m**	Net: **- £0.8m**	Yes	Out

Summary: Analysis & Evidence — Policy Option 3

Description: Amend regulations so that DEOs on both current and new schemes are issued in the same new format: protected earnings proportion stated as a percentage, deductions stated in full range of pay frequencies.

FULL ECONOMIC ASSESSMENT

Price Base Year	PV Base Year	Time Period Years	Net Benefit (Present Value (PV)) (£m)		
2011/12	**2011/12**	**20**	Low:	High:	Best Estimate: **-£0.6m**

COSTS (£m)	Total Transition **(Constant Price)**	**Years**	Average Annual **(excl. Transition) (Constant Price)**	Total Cost **(Present Value)**
Low		17		
High				
Best Estimate	£21.1m		-	£20.4m

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

NOTE: All costs are incurred upfront at the beginning of the transition period. No ongoing costs are incurred in addition to the baseline post transition.

Commission: Changes to existing IT systems to enable DEOs on current schemes to be issued in the same format as new scheme DEOs: £10m; re-issuing current scheme DEOs in new format: £0.2m; train existing scheme staff on new DEO procedures: £0.01m to £0.015m. No extra costs to new scheme.

Employers: Half of employers with current scheme DEOs could require payroll software upgrades: £10.2m (£5.5m micro employers, £4.7m others); a limited number of employers new to DEOs could require software upgrades after new scheme launch: £0.26m (£0.15m micro, £0.11m others); employers with both current and scheme DEOs training to understand the new rules: £0.42m (£0.26m micro, £0.16m others).

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

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low		17		
High				
Best Estimate	£22.8m		£2.6m	**£19.8m**

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

Commission: Avoid need to contact 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; avoid need to make new scheme IT build changes to allow net earnings and payment period to be recorded £0.5m.

Employers: Burden of providing employee net income and payment frequency information to the Commission for new scheme DEOs avoided: £1.5m (£1.25m micro, £0.25m other employers) annually post transition, £13.1m (£10.8m micro, £2.3m other employers) in transition.

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

Commission Administration of DEOs may be simpler, more transparent with the expression of the protected earning proportion as a percentage in all cases.

Employers: Expressing the protected proportion as a percentage rather than a monetary amount may be a net benefit or a net cost to employers depending on the payroll systems they use.

Commission and Employers: Potential reduction in contact time on current scheme cases because of removal of need to collect payment frequency information.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5

It is assumed that the necessary IT changes to current schemes would be in place in time to go live at same time as new scheme launch. There is a risk that this would not be achievable and new scheme launch would have to be delayed as a result. A six month delay would incur additional costs related to new scheme development contracts in excess of £10m. There is a risk of disruption of payments to parents associated with a large-scale re-issuing of DEOs at new scheme launch.

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			**In scope of OIOO?**	**Measure qualifies as**
Costs: £0.7m	**Benefits:** £0.8m	**Net:** -£0.1m	Yes	Out

Evidence Base (for summary sheets)

Background

1. The Commission operated two separate child maintenance schemes through its Child Support Agency (CSA) division: the "2003 scheme" for cases starting after 3rd March 2003 and the "1993 scheme" for cases which started prior to that date. The schemes are provided for by separate legislation and operate according to different statutory rules. The Commission was abolished from 1st August 2012 and its functions and staff transferred to the Department for Work and Pensions ("the Department"). The Child Support Agency now functions as one of the 'operational arms' of the Department, providing the Government's statutory maintenance service. Therefore, any references within this document to the Commission should now be taken as meaning the Department.
2. Under the current rules net income is used in the calculation and this information is generally sought from either the non-resident parent (NRP), or in a large proportion of cases, from their employer(s).
3. In 2006 Sir David Henshaw [6] 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;
    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 current 1.1 million parents with care using the Child Support Agency.
4. Key issues addressed were the widespread CSA 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.
5. 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 [1]. This was followed by the Child Maintenance and Other Payments Act 2008 [2, 3] which made the changes to primary legislation required to implement the White Paper proposals.
6. The Government has progressed the design of a new system of child maintenance, at the heart of which, following the recommendations, is a new IT system and a new calculation based on annual gross income data provided directly from Her Majesty's Revenue and Customs (HMRC). The use of HMRC gross income removes the need for the Commission to contact employers for income information when assessing maintenance liability, reducing costs for both.
7. Regulation changes required to introduce the new calculation and supporting IT are being consulted on separately, with the associated costs and benefits outlined in the impact assessment for the Child Support Maintenance Calculation Regulations 2012.

Deduction from earnings orders

8. Deduction from earnings orders (DEOs) are administrative orders that require an employer to make deductions in respect of child maintenance liability directly from employee earnings and pay them to the Commission.
9. NRPs can choose to pay maintenance by DEO, however a large majority are imposed by the Commission as an enforcement measure, that is, where the NRP has demonstrated non-compliance and the Commission uses the DEO to ensure payment of the child maintenance liability and arrears.
10. If the NRP works for the Ministry of Defence then the Commission will issue a deduction from earnings request (DER) instead. These are similar to DEOs but are covered by separate legislation and therefore are not affected by the regulatory changes under consideration in this impact assessment.
11. There were 861,700 cases with an on-going child maintenance liability and 137,000 cases with a DEO in place at the end of March 2011 [7]. Taking into account that NRPs with more than one case will have one DEO covering all maintenance payments, there are around 130,000 active DEOs.

12. There are around 80,000 employers operating the 130,000 active DEOs, 50,000 of whom are micro employers (i.e. employ less than 5 people) and 30,000 larger employers. Around 5,000 employers have more than one DEO, very few of whom are likely to be micro employers.

13. The value of child maintenance received from DEOs between April 2010 and March 2011 was £285m [8]. In total there was £1,150.2m in child maintenance collected or arranged by the CSA in the 12 months to March 2011 [8]. This means around 25% of the annual child maintenance collected or arranged by the CSA in the 12 months to March 2011 was collected via DEOs.

Current Policy

14. When imposing a DEO the Commission first contacts the employer to confirm employer and employee details (and payment frequency information, if not held).[1] The Commission then uses this information and the net income information it already holds to complete the formal order and sends this to the employer together with information on how to set up the deduction. The following information is provided to the employer:

    a. The normal deduction rate – the amount of child maintenance which should be taken from the NRP's net earnings in each pay period.

    b. The protected earnings proportion/rate – this is the minimum (expressed as a monetary amount on the DEO) which must be paid to the NRP after deductions for child maintenance have been paid. The protected earnings proportion applies to DEOs on the 2003 scheme and is calculated as 60% of the non-resident parent's net earnings. The protected earnings rate applies to DEOs on the 1993 scheme and is an amount equal to the exempt income in the child maintenance assessment.

    c. The date on which payments are expected to start.

    d. How often the payments are expected to be deducted (based on how frequently NRP is paid).

15. The employer has to ensure that the NRP employee is left with at least the amount specified for the protected earnings proportion / rate. The employer must deduct the full amount specified in the normal deduction rate but where this is not possible (i.e. the threshold in the protected earnings proportion/ rate is breached) the employer should deduct as much as possible and follow rules on carrying over payments to the following pay period.

16. The employer must then send the deduction and, if paying by any method other than individual BACS (Bank Automated Clearing System), a payment schedule form, to the Commission.

Problem under consideration/Rationale for intervention

17. The link to HMRC information in the new scheme means the Commission will have up to date employer and employee details available when issuing a DEO, negating the need to contact employers (in most instances) to confirm this information. However, the move to gross income for the new scheme also means the Commission will not hold the net income and payment frequency information needed under the current regulations to complete a DEO. Therefore, unless regulations are changed to accommodate the new system, the Commission will need to request net income and pay frequency information from employers each time it needs to issue a new scheme DEO, with significant attendant costs and burdens for both the Commission and employers.[2]

Baseline for considering policy options

18. The baseline against which the policy options are considered is the introduction of the new scheme without amending DEO regulations i.e. the preferred option outlined in the final stage impact assessment for the draft Child Support Maintenance Calculation Regulations 2012.

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[1] Payment frequency information will usually but not necessarily always have been recorded together with net income information when the maintenance liability on the case was assessed.

[2] Note: regardless frequency of payment, the employer must make the relevant payments to the Commission by the 19th of month following deduction.

19. Option 1 then is the baseline where nothing is done to address the information requirements for DEOs following the introduction of the new calculation (i.e. keeping current regulations as they are). Option 2 then considers the impact of amending DEO regulations to cover new scheme cases only (introducing the Child support (Meaning of Child and New Calculation Rules) (Consequential and Miscellaneous Amendment) Regulations 2012), while Option 3 considers the impact of amending regulations to cover all DEOs whether applied to current or new scheme cases.

Policy option 1: New scheme is launched with no change to DEO regulations (the baseline)

20. As outlined in the previous section, under this policy option the new scheme (new calculation and supporting IT system) would be introduced and no amendments to DEO regulations would be made. The costs and benefits are as outlined in the preferred option for the final stage impact assessment for the Child Support Maintenance Calculation Regulations 2012 [18].
21. There would be no impact on the operation of current scheme DEOs. On the new scheme the Commission would need to obtain details of NRP net earnings and pay frequency from an employer before imposing a DEO.
22. This forms the baseline against which Options 2 and 3 are assessed.

Policy option 2: Amend regulations for DEOs on the new scheme, retain current regulations for DEOs on existing schemes

23. This involves implementing the Child support (Meaning of Child and New Calculation Rules) (Consequential and Miscellaneous Amendment) Regulations 2012. Under this option DEOs on existing schemes would continue unchanged under the current Regulations. That is, for existing cases, the Commission would continue to specify the amount of the deduction, the (monetary) amount for the protected earnings proportion and the payment frequency. This would continue for the transitional period during which cases remain open on the current schemes.[3]
24. For any DEOs which relate to cases on the new scheme the Commission would specify the amount of the deduction in monthly, weekly, two weekly and four weekly amounts – with the amounts calculated from HMRC gross annual income already held on system. The employer would select the deduction relevant to the employee from these options. The protected earnings rate would be stated as a percentage (60%) of net earnings and not an amount. The employer would then be required to calculate the protected earnings amount themselves as 60% of the NRP’s actual net earnings that period.
25. There would be no additional costs to the Commission on either the current or new schemes associated with this option over and above those already accounted for in the impact assessment for the Child Support Maintenance Calculation Regulations 2012. There are small potential additional costs to employers associated with setting up new scheme DEOs for a short period after the new scheme launch.
26. The significant benefit of this option would be the avoidance of Commission and employer costs associated with the Commission requesting net income and pay frequency information from employers each time it needs to issue a new scheme DEO.

Policy option 3: Amend regulations so that DEOs on both current and new schemes are issued in the same amended format

27. Under this policy option the amendments to regulations would mean all DEOs being imposed using the same new scheme compatible format, with consistency of regulation across all DEOs being the

[3] These proposed changes to the administration of DEOs were originally planned as separate regulations and were consulted on as the proposed Child Support Collection and Enforcement Amendment Regulations 2012. They have now been combined with other consequential and miscellaneous amendment regulations to form the proposed Child support (Meaning of Child and New Calculation Rules) (Consequential and Miscellaneous Amendment) Regulations 2012.

primary advantage of this option. From the start of the new scheme all DEOs (current and new scheme) would instruct the employer to protect 60% of the employee's actual net earnings, with the employer required to determine the amount themselves.

28. For new scheme cases, the deductions to be made would be specified monthly with weekly, two weekly and four weekly equivalents, with the employer selecting the appropriate deduction amount from these. For current scheme cases, amendments to IT would allow the deductions to be specified for exactly the same range of pay periods as new scheme cases.

29. To achieve the policy aim of consistency of treatment across all DEOs, it would be necessary for all DEOs on the existing schemes to be re-issued in the new format at go-live. The policy would require a significant cost to the Commission to amend existing IT systems. There would also be Commission costs in re-issuing existing DEOs to employers, informing NRPs of the change, providing information and support to both employers and NRPs though the change and training staff. For employers the costs of adapting payroll systems to take account of the change to existing DEOs is potentially substantial.

30. The costs and burdens associated with this option are solely associated with the current schemes.

31. This option would also have the benefit of avoiding of Commission and employer costs associated with the Commission requesting net income and pay frequency information from employers each time it needs to issue a new scheme DEO.

Preferred Option

32. The preferred option is Option 2.

33. Under Option 2 whilst there might be an initial cost of £280k for employers to upgrade their payroll software, and potential training costs of £20-£30k, these costs are far outweighed by the benefits of avoiding the need for the Commission to contact employers each time it needs to issue a new scheme DEO. These benefits would involve annual savings to the Commission of £1.1m and to employers of £1.5m in the steady state post transition to the new scheme. The savings over the transition period would be £9.7m for the Commission and £13.1m for employers.

34. Under Option 3 whilst the intended on-going annual savings for both the Commission and employers from the introduction of the new scheme would be realised, these would be off-set by significant initial one-off costs, all associated with current scheme cases. Employers could be forced to incur costs of £10.9m in bespoke updates to IT systems, payroll software and for staff training while the Commission would incur total additional costs of up to £10.2m.

Case closure and time period for impact assessment

Case closure

35. The proposed regulations (the Child support (Meaning of Child and New Calculation Rules) (Consequential and Miscellaneous Amendment) Regulations 2012) are planned to come into force in 2012 at same time as the Child Support Maintenance Calculation Regulations 2012. Following the closure of the existing schemes 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.

36. The Government propose that once the new scheme is judged to be working well, over time, cases on existing schemes will be closed and clients will 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. These proposals are detailed in "Supporting separated families; securing children's futures" as part of a public consultation launched on 19 July 2012. [20]

Time period for assessing impacts

37. 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 a related application is made to the new scheme.

38. Without bulk case closure, it would in theory take up to 20 years for the last cases on the current schemes 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, transition be completed, and steady state costs and benefits be realised.[4]

39. 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.

40. A longer post transition time period of 10 years was considered, as the policy is expected to continue in the long term. However systematic early closure of existing CSA cases will considerably shorten the effective transition time period.

41. For consistency the 20 year time period used here will be followed in assessing the other child maintenance policy 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.

DEO regulations in the context of the wider child maintenance reforms

42. The Government published a response to the consultation on "Strengthening families, promoting parental responsibility: the future of child maintenance" on 12 July 2011 [14] and has launched a consultation on the details of case closure and charging, "Supporting separated families; securing children's futures", on 19 July 2012. [20] The full set of child maintenance policies which emerge following this further consultation 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 as presented in this impact assessment. These effects will be assessed alongside any further proposed regulatory changes. The areas covered are:

    a. Introduction of the new HMRC annual gross-income based statutory scheme with supporting IT.[5]

    b. Charging of PWCs and NRPs to use the new statutory scheme.

    c. Giving NRPs the choice whether or not to pay parents with care directly.

    d. A mandatory information and support gateway parents will need to visit before applying to the statutory service.

    e. Co-ordinated family support services for separated and separating families from a range of providers with an emphasis on cooperative parenting and family-based arrangements.

    f. Closure of cases on the existing child maintenance schemes.

43. An outline plan of how the implementation of these policies will fit together is illustrated in the diagram on the following page.

[4] In practice the IT systems may be required to remain open to handle any remaining arrears of maintenance due on cases that have closed.

[5] With costs and benefits as already outlined in the impact assessment for the Child Support Maintenance Calculation Regulations 2012.

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

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New Scheme calculation (IA 1)
Regulations to introduce a new child maintenance calculation and supporting IT system.

Amending DEO regulations (IA 2 – this one)
to take account change in availability of (net to gross) income data in the new statutory scheme – information needed when requesting employers to operate a

Charging PWCs and NRPs to use the new statutory scheme (application, collection and enforcement charges).
Direct Pay (DP) choice Giving non-resident parents freedom of choice with regards to use of Direct Pay to compliment charging regime.
Co-ordinated family support services for separated and separating families from a range of providers with an emphasis on cooperative parenting and family-based arrangements.
Gateway A mandatory information and support gateway designed to encourage family-based arrangements. Parents will need to visit

Case closure
All existing schemes cases will be closed over a three year period, with support and guidance provided to parents on their future options, to allow them to decide if they want to make an application to the new statutory service.

2029

2032

COSTS AND BENEFITS

44. Option 1, the baseline for assessing the costs and benefits of amending DEO regulations, is position where the new child maintenance scheme is introduced with no change to DEO regulations.[6]

Comparison summary table

Option	Government – Commission	Employers	Parent
1. Introduce the new scheme with no change to DEO regulations – the baseline			
2. Amend regulations for DEOs on the new scheme, retain current regulations for DEOs on existing schemes	£1.1m ongoing benefit by avoiding need to contact employers to obtain net income and payment frequency information on new scheme, build up of £9.2m savings in transition, £0.5m savings on IT costs of amending new scheme IT build to cope with net income and payment frequency information. £12.9m total benefits over 20 years.	One-off £0.28m IT software upgrade cost, £0.02m-£0.03m training costs associated with new scheme cases. £1.5m (£1.25m micro £0.25m other) ongoing benefits through avoidance of need to supply Commission with net income and payment frequency information on new scheme NRPs, build up of £13.1m in transition, £17.7m total savings costs over 20 years (£14.65m for micro employers and £3.05m for others).	
3. Amend regulations so that DEOs on both current and new schemes are issued in the same amended format	£10m current scheme IT changes, £0.2m re-issuing current scheme DEOs, £10k to £15k current scheme staff training. Benefits are the same as under Option 2	£10.2m (£5.5m micro employers, £4.7m others) for existing employer payroll software upgrades, £0.26m (£0.15m micro, £0.11m others) for new employers to upgrade software after new scheme launch, £0.42m (£0.26m micro, £0.16m others) for employers with both existing and new DEOs training to understand the new rules. Benefits are the same as under Option 2	

[6] i.e. the position as outlined in the impact assessment for the Child Support Maintenance Calculation Regulations 2012 *plus* the extra costs associated with contacting employers for net income and payment frequency information.

Policy option 1: New scheme is introduced with no change to current DEO regulations.

45. This option represents the do nothing baseline against which options 2 and 3 are considered. The costs/benefits of not amending DEO regulations are included in the preferred option in the final stage impact assessment for the Child Support Maintenance Calculation Regulations 2012.

Policy option 2: Amend regulations to avoid need for the Commission to contact employers for net income and payment frequency information when issuing new scheme DEOs, while retaining the use of net income and payment frequency information for DEOs issued on remaining current scheme cases.

Summary Table: Option 2

	Commission	Employers	Parents
One-off costs / benefits	**£0.5m-** benefit by not having to amend new scheme IT build to cope with net income information.	**£0.28m** cost to upgrade software (£0.15m micro employers to set up new scheme DEOs £0.13m non-micro employers). **£0.02m-£0.03m** training cost. Complication of understanding and operating existing and new rules at the same time. Potential but difficult to quantify upgrade costs for a small number of employers who operate customised payroll software.	
On-going annual costs /	Annually **~£1.1m** benefit by not having to contact employers to	Annually **~£1.5m** benefit by not having to respond to	New scheme DEO initial payments are

benefits	obtain new scheme NRP net income and pay frequency information.	Commission requests for new scheme NRP net income and pay frequency information. This is £1.25m for micro employers and £0.25m for other employers. Impact of requiring employers to calculate the 60% protected earnings proportion on new scheme cases likely to be a net benefit.	likely to be established most quickly under this option but it is not possible to quantify the impact.
Over 20 years	**£12.9m** cumulative benefit of not having to contact employers for new scheme NRP net income and pay frequency information	**£0.3m** total of one-off costs, **£17.7m** (£14.65m for micro employers and £3.05m for others) cumulative benefit of not having to supply information to the Commission.	

Costs & Benefits to Commission

Costs

46. There would be no significant additional costs to the Commission over and above the baseline. Neither current nor new IT systems would need to be changed. There would be no additional training over and above that for the new scheme training budget and no additional communications would need to be sent.

47. There could be a minor potential cost if some employers contact the Commission for advice because they pay the non-resident parent by a pay period other than those supplied in the new scheme DEO but very few employers pay by these other pay periods (e.g. quarterly, daily) and it is unlikely that the Commission would consider a DEO appropriate in those cases.

48. It is expected that the current volume of new and re-issued DEOs each year, as well as the distribution of DEOs amongst employers, will remain unchanged after the launch of the new scheme.

Benefits

49. The significant benefit of this option to the Commission would be the avoidance of costs associated with the Commission requesting net income and pay frequency information from employers each time it needs to issue a new scheme DEO.

Changes to IT systems

50. Under the do nothing Option 1 baseline there would be specific IT build and computing logic costs to enable net earnings and payment frequency information to be stored and used when issuing DEOs on the new scheme. These costs are estimated at **£0.5m**. The Commission would need this information to issue new scheme DEO notifications in the same format as for current scheme DEOs. The IT functionality would not be needed under Option 2 and therefore the associated **£0.5m** costs would be saved.

Avoiding the need to obtain net earnings and payment frequency from the employer

51. Under the do nothing Option 1, 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 setting up a DEO, having been collected and entered on the IT system at the maintenance calculation stage prior to the DEO process beginning.[7] On the new scheme only gross annual income from HMRC will have been recorded on the computer system.

52. Estimates of the costs saved by not having to contact employers for employee net income and payment frequency information is in the region of **£1.1m annually** in the post transition stage when all cases are on the new gross income scheme.

53. 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%[8]
    - 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 based on CSA Operations 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 £10.98[9]

54. Table 1 below shows how the volumes of DEOs issued on the current and new schemes are expected to evolve over time, assuming a flat profile for the overall volume. It shows the volume of new scheme DEOs that would require employer

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

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

[9] 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.

contact if the DEO regulations were not changed and the associated costs – costs which are saved if the regulations are changed.

Table 1: Build up of DEOs and associated Commission costs if employers contacted for net income information

	….	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 annualy 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**

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

Other issues

56. There could also be savings on:

- Communications costs to inform staff, employers and parents of the requirements to collect income information from employers.

- Savings associated with new scheme training and communications design which would be needed to reflect the use of net income for DEO calculations.

Costs & Benefits to Employers

Costs

Payroll software costs of administering DEOs on the new scheme

57. Employers normally pay their staff via either a payroll software package, outsource the payroll or use some manual or bespoke tool, such as a spreadsheet. It is estimated that around two thirds of micro employers and 95% of other employers either use a payroll software package or outsource payroll work.[10]

Table 2 Payroll software used by employers with DEOs[11]

VOLUMES by pay type	Manual	Software	All
Micro employers	16,500	33,500	50,000
Non-micro employers	1,500	28,500	30,000
Total	**18,000**	**62,000**	**80,000**

[10] Based on Commission internal expert opinion, informed by consultation with payroll software professionals.

[11] Based on information from DWP Research Report No 530 "Informing the piloting of Deduction from Earnings Orders as the primary method of collecting child maintenance".

58. Employers receiving a DEO for a new scheme case will either need to ensure they have a version of payroll software which incorporates the updated legislation or by other means, perhaps manually, ensure that the protected earnings proportion is calculated. There is no actual requirement for employers to buy software updates regularly but is assumed most do in order to take account of the latest tax and other changes, including changes to DEO regulations.

59. If an employer has payroll software and gets automatic updates to the package then there would be no additional cost in operating a new scheme DEO as the legislative changes would be in their latest upgrade. It is estimated that around a half of those with payroll software might fall into this category, with upgrades being made at least once a year.[12]

60. If an employer has payroll software but does not get automatic updates then costs associated with operating a new scheme DEO would depend on whether the last upgrade the employer had purchased contained the required update.

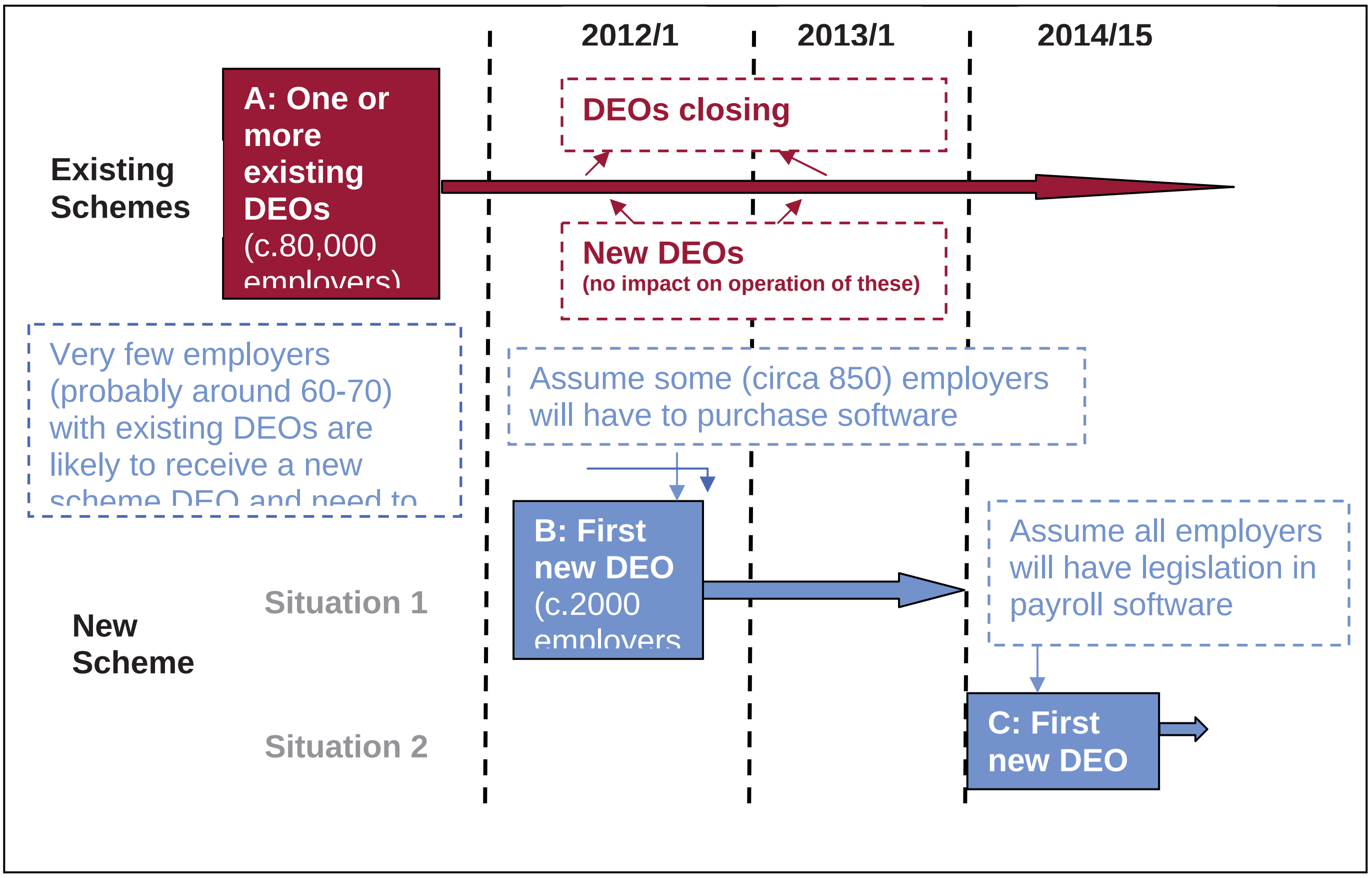
61. The Commission has been unable to find evidence on how often employers without automatic updates upgrade their payroll software, so it is difficult to assess what proportion of these employers would incur extra costs upgrading if they had to operate a new scheme DEO. The Commission asked about this in the consultation on these regulations but did not receive specific responses on this aspect [14].

62. For the purposes of estimating costs here, it is assumed that if an employer using payroll software without automatic updates was required to implement a DEO on a new scheme case in 2012/13 or 2013/14 then they would have to purchase an unplanned software upgrade to do so, as the functionality simply would not exist on their current software package. It is further assumed that this would involve an additional specific cost and not just a bringing forward of an update cost which would be incurred later in any case.

63. From 2014/15 onwards it is assumed an employer would, as result of their regular upgrades, have software which includes new scheme DEO functionality. From this point onwards there would be no separately identifiable additional IT cost to operating DEOs on gross income cases. The diagram below demonstrates this journey.

Diagram 1: Illustration of effect on employers of changing regulations for new scheme DEOs.

[12] Commission internal expert opinion, informed by consultation with payroll software professionals.



64. Most employers with one or more DEOs on existing scheme cases are unaffected by the start of the new scheme (represented by box A in the diagram). With the new scheme launch planned for late 2012/13 very few new scheme DEOs would be expected in that financial year. Around 4,000 new scheme DEOs would be expected in total during 2012/13 and 2013/14 based on the anticipated caseload volume at that time (represented by box B in the diagram).[13]

65. We would expect these 4,000 new scheme DEOs to be issued to around 2,000 employers (taking into account larger employers with multiple DEOs), 1,700 of whom are likely to have payroll software, of whom 850 are likely to be without automatic software updates. Of the 850 around half are likely to be micro employers.

66. For the purposes of developing estimates here, bespoke software upgrades are assumed to be of either high or low cost. Research suggests around 90% of upgrades costing in the region of £200 and 10% in the region of £1,500 (£1,000-£2,000).[14]

67. Based on these figures it is expected that the cost to employers who it is assumed would be forced to purchase bespoke upgrades in 2012/13 or 2013/14 would be around **£280k** of which £150k relates to micro employers and £130k to

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[13] If a proposed phased introduction of the new scheme, with limited applications accepted initially, is implemented there will be far fewer new scheme DEOs issued in the financial years 2012/13 and 2013/14, lowering the costs of not amending DEO regulations but correspondingly lowering the benefits of doing so by the same amount.

[14] Commission internal expert opinion, informed by consultation with payroll software professionals.

other employers.[15] Sensitivity analysis shows that, by varying the assumptions significantly (increasing/decreasing the assumption about the percentage of micro employers with payroll software, and the percentage of all employers with automatic updates +/-50%) the actual cost to employers could be as low as £125k or as high as £550k.

68. Apart from the payroll software costs it is possible that requiring employers to calculate the 60% protected earnings proportion on new scheme DEOs could be a net cost or benefit depending on particular circumstances, although for most is likely to simplify the process and therefore be a net benefit.

Employers using bespoke software or manual payroll systems

69. It is assumed that for the small number of employers with customised payroll packages rather than 'off the shelf' versions, the process they would need to undertake to calculate and apply the 60% Protected Earnings Rate would be possible through a negligible cost one-off change to their customised package.

70. Similarly for employers using manual payment methods it is assumed that the cost of calculating the 60% protected earnings amount would be negligible in the context of the overall process.

Complication of operating different rules

71. There is a non-monetised cost to employers through the additional complication of operating different rules over the transition period between the current and new schemes.

Understanding the new rules

72. There would be a cost to employers in understanding the new set of rules. For employers setting up a first DEO on the new scheme this would not be an additional cost as they would have needed to understand the existing rules in any case.

73. Therefore an additional cost only applies to employers who have existing DEOs on the current schemes and then have to implement another on the new scheme. In the unlikely event that all 5,000 employers with more than one DEO would have to bear this cost then the training cost to understand the new rules could be around £20k - £30k. This assumes two administrative staff on £10.70 an hour would need to be trained for a quarter of an hour each for every employer.

Other impacts of changes to DEO formats

74. It is assumed that requiring employers to choose the correct payment deduction amount and period from a list of pay period options would not have a significant cost.

[15] An estimated 850 employers would be affected, split 55:45 micro:other employers, 10% of each requiring expensive updates costing £1,500, 90% of each requiring low cost upgrades costing £200 each.

Benefits

75. As with the Commission, the significant benefit of this option to employers would be the avoidance of costs associated with the Commission requesting net income and pay frequency information from employers each time it needs to issue a new scheme DEO.

Avoiding employer requirement to supply net earnings and payment frequency information

76. The best available estimate of the cost saving to employers of not having to provide 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.

77. The £1.5m splits into around £1.25m for micro employers and £0.25m for other employers.

78. The £1.5m is estimated as follows:

    - 197,000 contacts saved annually from the Commission split between 122,000 for micro employers and 75,000 for other employers;

    - Half an hour of staff time saved 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 uprated to 2011/12, median manager's salary). Larger employer costs of £10.70 an hour (Annual Survey of Hours and Earnings, 2010 uprated to 2011/12, median administrator's salary). Assuming that larger employers more likely than micro employers to have administrators.

79. Under these assumptions, over 20 years the cost savings to employers of not 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.

80. The consultation on the draft regulations asked employers to feedback their views on these assumptions and estimates [14]. No specific information was received through the consultation which could be used to update or change the costs and benefits outlined here [16]. Sensitivity analysis shows that, by varying the assumptions significantly (increasing/decreasing the assumption about the number of employer contacts and the time required to deal with them by +/-25%) the actual cost savings to employers could be as low as £10m or as high as £27m.

Costs & Benefits to Parents

81. There would be no overall economic difference in the maintenance paid by NRPs or received by PWCs. However, in any given period there could be a difference in the amount of maintenance that would be transferred under the new DEO format compared to the amount that would have been transferred under the old DEO format (with the exact same maintenance calculation in each case) as illustrated in this example.

82. Suppose under current rules an NRP has a normal deduction rate of £200 a month with a protected earnings rate of £800. One month the NRP goes onto statutory sick pay of £350 a month so his overall pay is below £800. In that month there would be no deduction – because the NRP's total earnings have dropped below the protected amount – and the £200 would be transferred to a later month. Under the proposed policy change the protected earnings would be specified as 60% of the net earnings. In this situation the employer would protect £210 (60% of £350) and deduct £140 for child maintenance with only £60 being carried over.

83. There is a case to be made that this change would be a benefit to both parents. The flexible percentage deduction better reflects the real NRP ability to pay in each pay period and ensures that the PWC and qualifying children continue to receive at least some maintenance.

Policy option 3: Amend regulations so that DEOs on both current and new schemes are issued in the same amended format

Summary Table: Option 3

	Commission	Employers	Parents
One-off costs / benefits	**£10.2m costs** comprising: - £10m current scheme IT changes - £0.2m re-issuing current scheme DEOs - £0.01m to £0.015m staff training **£0.5m-** benefit by not having to amend new scheme IT build to cope with net income information.	**£10.9m costs** comprising: £10.2m (£5.5m micro, £4.7m others) employers with current scheme DEOs requiring bespoke payroll software upgrades and £0.26m (£0.15m micro, £0.11m others) employers with new scheme DEOs after new scheme launch. £0.42m for employers with current and new DEOs training to understand the new rules.	None
On-going annual costs / benefits	Annually **~£1.1m** benefit by not having to contact employers to obtain new scheme NRP net income and pay frequency information. Administration of all DEOs may be simpler, more transparent with the expression of the protected earning proportion as a percentage in all cases. Potential reduction in contact time on current scheme cases because of removal of need for payment frequency information.	Annually **~£1.5m** benefit by not having to respond to Commission requests for new scheme NRP net income and pay frequency information. This is £1.25m for micro employers and £0.25m for other employers. Possible non-monetised on-going cost or benefit for employers to check the 60% Potential reduction in contact time on current scheme cases because of removal of need for payment frequency information.	New scheme DEO initial payments are likely to be established most quickly under this option but it is not possible to quantify the impact.
Over 20 years	**£10.2m** one-off costs represent the full monetised costs over 20 years **£12.9m** cumulative benefit of not having to contact	**£10.9m** one-off costs represent the full monetised costs over 20 years. All costs associated with current scheme cases	

	employers for new scheme NRP net income and pay frequency information	**£17.7m** (£14.65m for micro employers and £3.05m for others) cumulative benefit of not having to supply information to the Commission.	

Costs & Benefits to Commission

<u>*Costs*</u>

Changes to IT systems

84. A significant change to current IT systems would be required to enable current scheme DEOs to be produced in the correct format, with the protected earnings rate stated as 60% of net income rather than an actual monetary amount and deductions specified in the full range of pay periods.

85. Instructions to employers on calculating the 60% protected rate themselves and revised communications to employers and parents would also need to be produced.

86. The current scheme IT changes required would be likely to cost in the region of **£10m**. Two separate IT development programmes would be required for each of the two current IT systems at a cost of around £5m each. There may be a small additional cost to update the Commission's off-system Clerical Case Database.

87. There is a risk that the IT changes would not be implemented in time for the planned new scheme launch date. To achieve a consistent format for all DEOs, the objective of this policy option, this would require a delay to new scheme launch. 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.

Re-issuing all current scheme DEOs in the new format to all employers and communication to non-resident parents

88. All current scheme DEOs would need to be re-issued to employers and non-resident parents informed in writing of the changed rules. There are many feasibility issues to be considered for a bulk re-issue of all existing DEOs but indicative costs are in the region of **£200k** broken down as follows:

    a. **£80k** to re-issue the DEOs to all 80,000 employers.

    b. **£15k** costs of telephone support to employers with questions on new forms. Assuming 10% of 80,000 employers would require a 10 minute conversation with an Administrative Officer costing £10.98 an hour.

c. **£85k** to notify non-resident parents. There are around 130,000 non-resident parents with DEOs all of whom would require a notification. Each notification would be expected to cost around 65p (postage and processing costs).

d. **£24k** costs of telephone support to NRPs with questions on the changes. Assuming 10% of 130,000 NRPs would require a 10 minute conversation with an Administrative Officer costing £10.98 an hour.

Staff training costs

89. Current scheme staff would need to have some training to understand the change. This would cost in the region of **£10k-15k**. This assumes it would take 6,600 administrative staff (4,400 administrative officers and 2,200 executive officers) 10 minutes to understand a short communication as DEOs are undertaken right across the Commission business.

Benefits

90. The significant benefit of this option to the Commission would be the avoidance of costs associated with the Commission requesting net income and pay frequency information from employers each time it needs to issue a new scheme DEO. The details of these cost savings are as outlined in the policy Option 2 section.

91. Administration of DEOs overall should be simpler with the expression of the protected earning proportion as a percentage in all cases.

92. There is also a potential reduction in contact time required with employers on current scheme cases because of it would never be necessary to obtain payment frequency information from employers when setting up DEOs.

Costs & Benefits to Employers

Costs

Changes to payroll software - existing employers with DEOs

93. The significant feature of Option 3 is the potentially substantial cost to employers as a result of the bulk re-issue of current scheme DEOs at new scheme launch (those affected are represented by box A in diagram 1 on page 15).

94. Following the assumptions used for Option 2 on employers and payroll software, it is estimated that 50% of the 62,000 employers with payroll software and currently administering DEOs do not obtain automatic software updates. Therefore these employers are likely to need to implement unplanned software upgrades to deal with the bulk change in DEO format at new scheme launch. This is because it is assumed their current software will not have the functionality to deal with the change.

95. If every existing employer in this situation needed to purchase the required software upgrade at the point of new scheme launch, then there could be a total one-off cost of around **£10.2m (£5.5m micro, £4.7m other employers)**. This figure is based on the volume of employers with payroll software without automatic upgrades (50% of 62,000 with payroll software) and assumptions about the proportions requiring low (45%) and high cost (5%) upgrades at a cost of £200 and £1,500 respectively. The expectation is that these are costs which

would not be incurred if these employers were able to wait to upgrade their software until the new DEO rules functionality was included in their next upgrade package – assumed to be from 2014/15 onwards.

Changes to payroll software - new employers

96. If other employers with payroll software without automatic updates had to impose a DEO for the first in 2012/13 or 2013/14 they would also bear additional costs as a result of the change. This is because they would also be forced into an unplanned software upgrade to deal with the new rules.

97. Since most employers with multiple DEOs would have been subjected to the “big bang” change at new scheme launch, for the purposes of estimation here the only employers who are assumed to have this additional cost are those, without automatic software upgrades, who would have to implement a DEO for the first time in 2012/13 or 2013/14 (i.e. a subset those represented by box B in diagram 1). The number of employers in this situation is expected to be small, around 800 (500 micro, 300 other). With the same unit costs applied as for the “big bang” employers, this cost is estimated at around **£260k** (£150k for micro employers and £110k for other employers).

98. Over the 20 year policy timescale there would also be employers who have never previously operated a DEO and have to implement one. Their costs in understanding and implementing the new rule DEOs are not likely to be significantly different than if they implemented DEOs under the current rules.

99. Apart from the payroll software costs it is possible that requiring employers to calculate the 60% protected earnings proportion on new scheme DEOs could be a net cost or benefit depending on particular circumstances, although for most is likely to simplify the process in the long term and therefore be a net benefit.

Employers using bespoke software or manual payroll systems

100. As for Option 2, it is assumed that for the small proportion of employers with customised payroll packages rather than ‘off the shelf’ versions, the process they would need to undertake to calculate and apply the 60% Protected Earnings Rate would be possible through a negligible cost one-off change to their customised package.

101. Similarly for employers using manual payment methods it is assumed that the cost of calculating the 60% protected earnings amount would be negligible in the context of the overall process.

Understanding the new rules

102. There would be a cost to all 80,000 employers of understanding the new set of rules when the legislation change goes live (i.e. those represented by box A in diagram 1). This cost could be in the region of **£420k** (£260k for micro employers and £160k for non-micro employers). This assumes two administrative staff on £10.70 an hour would need to be trained for a quarter of an hour each for every non-micro employer and one person earning £20.90 would need to be trained for quarter of an hour for micro-employers.

103. The impact of the move to employers calculating the 60% protected proportion might be a cost or benefit overall (and this will be consulted on) but some employers at least will find it easier and more efficient to apply in their payroll systems than a specific monetary amount.

Other impacts of changes to DEO formats

104. It is assumed that requiring employers to choose the correct payment deduction amount and period from a list of pay period options would not have a significant cost.

105. There is also a potential reduction in contact time required by the Commission with employers on current scheme cases because of it would never be necessary to obtain payment frequency information from employers when setting up DEOs.

Benefits

106. As with the Commission, the significant benefit of this option to employers would be the avoidance of costs associated with the Commission requesting net income and pay frequency information from employers each time it needs to issue a new scheme DEO. The details of these cost savings are as outlined in the policy Option 2 section.

Consultation on estimates

107. The consultation asked employers to feedback their views on these assumptions and estimates [14]. No specific information was received through the consultation which could be used to update or change the costs and benefits outlined here [16].

Costs & Benefits to Parents

108. There is a risk of disruption of payments to parents associated with a large-scale re-issuing of DEOs at new scheme launch.

109. Otherwise the impact on parents is as for Option 2.

Statutory Equalities Duty

110. A separate equalities impact assessment (initial screening) has been produced which found an overall neutral impact on clients. The initial screening document will be made available upon request.

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[16] Statutory Equality Duties Impact Test guidance	No	21
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	Yes	14-17 ,
Environmental impacts		
Greenhouse gas assessment	No	
Wider environmental issues	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	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

[16] 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.

References

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/welfarereform-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, March 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%2

	0October%202008%20-%20Final%20(2).doc
14	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
15	Consultation 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
16	Government's response to the consultation on The Child Support Collection and Enforcement Amendment Regulations 2012: http://www.childmaintenance.org/en/pdf/Collection-Enforcement-Regulations-2012-Consultation-Response.pdf
17	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
18	Final Stage Impact Assessment: The Child Support Maintenance Calculation Regulations 2012: http://www.childmaintenance.org/en/pdf/Maintenance-Calculation-Regulations-2012-Impact-Assessment.pdf
19	Government's response to the consultation on The Child Support Maintenance Calculation Regulations 2012: http://www.childmaintenance.org/en/pdf/Maintenance-Calculation-Regulations-2012-Consultation-Response.pdf
20	Public consultation: Supporting separated families; securing children's futures http://www.dwp.gov.uk/docs/childrens-futures-consultation.pdf
21	Consultation Stage Impact Assessment: Child maintenance reforms: case closure, charging, supporting family-based arrangements. http://www.dwp.gov.uk/docs/cm-case-closure-and-charging-regs-ia.pdf

Evidence Base

Annual profile of monetised costs and benefits for preferred Option 2* - (£m) constant prices (IN ATTACHMENT)

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

Regulatory Policy Committee	**OPINION**

Impact Assessment (IA)	Amending regulations to align Deduction from Earnings Orders with the new statutory child maintenance scheme	
Lead Department/Agency	Department for Work and Pensions	
Stage	Final	
Origin	Domestic	
Date submitted to RPC	18/06/2012	
RPC Opinion date and reference	10/07/2012	RPC11-DWP-1220(3)
Overall Assessment	**AMBER**	

The IA is fit for purpose. However, the IA should provide ranges of the potential costs and benefits based on a sensitivity analysis to show how the assumptions can affect the final outcome of the proposal.

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

Ranges of costs and benefits. The IA says *'no specific information was received through the consultation which could be used to update or change the costs and benefits outlined here' (paragraph 80).* As the estimates of the additional costs and benefits are based on some key assumptions (e.g. additional time saved, number of companies upgrading software), the IA should carry out sensitivity analysis and present ranges of costs and benefits to show the potential variation in the overall net economic impact of the proposal.

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 deregulatory measure that has a direct net benefit to business (an 'OUT') with an Equivalent Annual Net Cost to Business (EANCB) of (-) £0.8 million. This is consistent with the current One-in, One-out Methodology and provides a reasonable assessment of the likely impacts.

Signed **Michael Gibbons,** Chairman