

Title: Direct Earnings Attachment to Recover Overpaid Social Security Benefits Lead department or agency: Department of Work and Pensions Other departments or agencies: Local authorities	Impact Assessment (IA)
	IA No: DWP0021
	Date: 13/09/2011
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary legislation
Contact for enquiries:	

Summary: Intervention and Options

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

Government at all levels makes significant use of attachment of earnings orders. DWP wishes to further reduce costs, and increase debt recovery particularly from those who are no longer in receipt of benefit and will not come to a voluntary agreement to repay their debt. These debts have come about as the person claiming the benefit has misrepresented their circumstances or failed to report a change in their circumstances as they should have done.

What are the policy objectives and the intended effects?

Enabling social security legislation to give DWP and local authorities rights to make direct earnings attachments (DEAs) on their own authority without reference to the courts will make recovery from debtors' earnings a relatively simple, administratively attractive option. Such deductions are already made in many cases in respect of child maintenance. When an overpayment occurs, a decision-maker decides if it should be recovered. The debtor will have had opportunity to appeal. Recovery is the final stage, thus the courts almost always agree to attachments of earnings. Attachment of earnings without the need to go through the courts will increase the options for recovery of more DWP and local authority overpayments and loans from such debtors.

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

The other option which has been considered is recovering DWP benefit overpayment debt by utilising the PAYE system. Such an option could not be implemented for a number of years. In advance of this, using DEAs as both an elective repayment method and for enforcement will ingrain the principle of deduction at source.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 4/2015

What is the basis for this review? PIR. **If applicable, set sunset clause date:** Month/Year

Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?

Yes

Ministerial Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that the expected costs, benefits and impact

a fair and reasonable assessment of the expected costs, benefits and impact justify the costs.

Signed by the responsible Minister:



Date:

26/9/11

Summary: Analysis and Evidence

Policy Option 1

Description:

Price Base Year 2011	PV Base Year 2011	Time Period Years 3	Net Benefit (Present Value (PV)) (£m)		
			Low: Optional	High: Optional	Best Estimate: £9.53

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	0	£0.73	£1.97

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

Annual costs. Debtors pay administration charges of £0.08m to employer.
Employer administration staff costs incurred of £0.08m per year (recovered from the debtors as above and offset against private sector fees under benefits).
Court fees revenue loss of £0.57m (offset against court administrative cost savings shown below under benefits).

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

The measure will enable increased volumes of debt to be recovered in a quicker more cost effective manner; little overall change to DWP and local authority staffing costs is expected. The staff time saved on quicker implementation per case is assumed to be deployed on the increased volume of debt recovery instances.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate		£4.26	£11.50

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

DWP and local authority debt recovery from attachment of earnings without use of courts. Representing debtors who otherwise have no repayment plan and no change to their current employment position, together with the consequential increase in the use of voluntary agreements.
Annual benefits. Exchequer increased recoveries of £3.05m; private sector administration fees of £0.08m; debtors save court fees of £0.57m; court reduced administration also £0.57m. (offset against fees lost).

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

These measures should make customers in debt more aware of the possibility of deduction at source, reducing any expectation of avoiding repaying debt and so increasing the numbers of debtors prepared to agree voluntary repayments.
DWP and LAs increase overall volume of recoveries as each case is faster to implement.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5%

Decisions to recover debt will use existing DWP and local authority procedures on value for money and the ability of the customer to repay.
The assumption of increased voluntary recovery volumes are based on C-MEC experience.
Local authority volumes are not available in detail and so have been estimated.
Court administration costs are assumed to be covered by the fees charged.
Employers continue to levy the administration charges on the debtors in the same proportion as in the past.

Direct impact on business (Equivalent Annual) £m):	In scope of OIOO?	Measure qualifies as
Benefits: 0.08		IN/OUT

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?	Great Britain				
From what date will the policy be implemented?	01/04/2012				
Which organisation(s) will enforce the policy?	DWP & local authorities				
What is the annual change in enforcement cost (£m)?	0				
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: 0		Non-traded: 0		
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: 100		Benefits: 100		
Distribution of annual cost (%) by organisation size (excl. Transition) (Constant Price)	Micro 0	< 20 10.4	Small 24.7	Medium 28.9	Large 36.0
Are any of these organisations exempt?	Yes	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 duties¹ Statutory Equality Duties Impact Test guidance	Yes	
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	Yes	14
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	No	
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	Tackling fraud and error in the benefit and tax credit systems. October 2010 HMRC, DWP. ISBN 978-1-84947-444-3
2	Child and Working Tax Credit Statistics 2008-09; published by HMRC
3	Fraud and Error in the Benefit System: April 2009 to March 2010; DWP; ISBN 978-1-84947-533-4.
4	Informing the piloting of Deduction from Earnings Orders as the primary method of collecting child maintenance. DWP Research Report No 530. 2008. ISBN 978-1-84712-440-1
5	HM Courts Service – Attachment Orders, A guide for employers http://www.hmcourts-service.gov.uk/courtfinder/forms/aehandbook_e.pdf
6	Office for National Statistics. Labour Force Survey. http://www.statistics.gov.uk/statbase/Source.asp?vlnk=358
7	The Council Tax (Administration And Enforcement) Regulations 1992.
8	Judicial and court statistics. http://www.justice.gov.uk/publications/docs/jcs-stats-2009-211010.pdf
9	Child Support Agency Quarterly Summary of Statistics. December 2010.
10	Enquiry for BERR and DWP on the predicted administrative costs of additional payroll services to support personal account pensions. Centre for Enterprise and Economic Development Research Middlesex University Business School, London. September 2007. URN: 07/1581.
11	Anticipated administrative burdens on businesses of proposed personal accounts arrangements. BERR and DWP. September 2007. URN: 07/1582.

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

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

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs	0	0	0	0	0					
Annual recurring cost	0	0	0	0	0					
Total annual costs	0	0	0.73	0.73	0.73					
Transition benefits	0	0	0	0	0					
Annual recurring benefits	0	0	0	0	0					
Total annual benefits	0	0	4.26	4.26	4.26					

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

Annual profile costs and benefits - (£m) constant prices

	10/11	11/12	12/13	13/14	14/15	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs	0	0	0	0	0					
Annual recurring cost	0	0	0	0	0					
Total annual costs	0	0	0.73	0.73	0.73					
Transition benefits	0	0	0	0	0					
Annual recurring benefits	0	0	0	0	0					
Total annual benefits	0	0	4.26	4.26	4.26					

Evidence Base (for summary sheets)

There is discretion for departments and regulators as to how to set out the evidence base. However, it is desirable that the following points are covered:

- Problem under consideration;
- Rationale for intervention;
- Policy objective;
- Description of options considered (including do nothing);
- Costs and benefits of each option (including administrative burden);
- Risks and assumptions;
- Direct costs and benefits to business calculations (following OIOO methodology);
- Wider impacts;
- Summary and preferred option with description of implementation plan.

Measure enabling DWP and local authorities to use direct earnings attachment orders to recover overpayments of social security benefits direct from wages

Introduction & general context

1. DWP and local authorities can recover overpayments by compulsory deduction from benefit. However, when a debtor is no longer in receipt of benefit then recovery is more problematic and to a large extent relies on customer co-operation. Short of enforcing repayment through the courts, DWP and local authorities are reliant on negotiation with debtors to agree a repayment plan which normally involves repayment by instalment. There are a large number of cases where no repayment is being made and court action is not cost effective. Direct earnings attachments (DEA) are compulsory whereby DWP and local authorities require deductions to be made from a debtor's wages without having to apply to the courts. This would cover the vast majority of those no longer in receipt of benefit (some groups such as self-employed would not be covered). It would provide a repayment mechanism similar in terms of cost effectiveness and 'captive audience' to compulsory deductions from benefit, for many of those who are no longer in receipt of benefit.

2. Social Security legislation deems recoverable, overpayments which result from claimants misrepresenting their circumstances or failing to declare changes in their circumstances. Official error overpayments are not compulsorily recoverable under this legislation. The decision as to whether a recoverable overpayment exists is made by an independent decision-maker. Claimants have a right of appeal to an independent appeal tribunal against such decisions. Only once the period (one calendar month) to lodge an appeal has passed does DWP write, and then 'phone, the claimant to seek recovery of the overpayment. If claimants decline to repay overpayments which they cause, or fail to respond, they are told that unless they agree to repay, an earnings attachment order will be issued to their employer. It is expected that, by this stage, most agree to make alternative arrangements to repay the overpayment directly to DWP.

3. Legislation enabling DWP and local authorities to make direct earnings attachment orders on their own authority without application to the courts will make recovery from a debtor's earnings a relatively simple, administratively attractive option. This may lead to this recovery option being used more, not just as a method of compliance, as is presently the case for DWP. There will be the option to target those debtors who choose not to repay their debts, but can also lead to an elective repayment choice. It is highly likely that voluntary recovery rates would increase if the DEA method is more readily available, as many more debtors would agree to repay their debts so as to avoid the additional administration charge that would be taken from their earnings to cover their employers' costs. Lower level debts will also come into scope due to the reduced recovery costs compared with application through the courts. Using DEA as a repayment tool may only be an interim measure. In the longer term it is envisaged that better results may be achieved through recovery via the PAYE system [reference 1].

4. The application of this measure will produce gains to the Exchequer through the increased recovery of debt. There will also be real resource savings to the public sector, since making use of a DEA is more cost-effective than the current route through the courts.

5. Powers to be taken in the Welfare Reform Bill will allow the DWP to match data with HMRC. This will eventually give information on where debtors are working and their earnings level as part of the plans for Universal Credit. This information will also facilitate debt recovery.

6. As an indicator of overall volumes, it is noted that there are approximately 350,000 people who are no longer in receipt of DWP benefits, but have not yet repaid their benefit overpayments totalling some £500 million. This covers Income Support, Jobseeker's Allowance, Employment and Support Allowance, Incapacity Benefit and Disability Living Allowance. Although these debtors are no longer in receipt of DWP benefits, they have currently no agreed plan to pay back their debt.

7. A breakdown of the housing benefit overpayments suggests that earnings not reported or incorrectly stated, are the largest component, estimated at £268m [table 6.4 in reference 3]. This gives some indication of the scope for local authorities to recover debt in which the DEA option could be used to make a contribution.

Cost benefit analysis

Summary

8. There are 3 separate elements of debt recovery to take into account under this measure:

a) Continuing to apply new cases at the same level as currently. Under this measure, these will make use of DEAs, so no need to apply through the courts.

b) Further volumes of such orders as a result of their simpler nature making smaller debts administratively cost-effective to recover. The additional costs to business must be noted here.

c) Additional voluntary agreements resulting from greater awareness of the principle of deduction at source.

The time period for these calculations runs to 2015. This is intended as an interim measure, before the option of using PAYE to recover overpayments becomes feasible. It also covers an exemption for micro-businesses. By 2015 it is expected that Universal Credit will be using its own mechanism for recovering overpayments.

Note that the cost to debtors of repaying overpaid benefits is excluded as a cost to debtors since society's preference, reflected in the rules for receipt of those benefits, is that they should not have received those benefit payments which were in excess of their entitlements.

The following table gives a summary of the various annual costs and benefits applying to the different sectors.

Table 1: Summary of annual costs and benefits

Activity	Exchequer	Business	Public Sector	Debtors	Notes
Description	£m	£m	£m	£m	
Existing annual volumes not requiring courts. DWP 1,650, LAs 4,000	Loss of court fees. (5,650 cases X £100 fee) £565,000	Neutral as continuing with existing volumes. Employer can continue to a charge at each deduction (expect 70p average). (5,650 cases at 70p X 26 in year) £102,830	Court volumes reduced, so less cost of administration (equates to fees charged). (5,650 cases X £100 cost) £565,000	Cheaper as no court fees. Debtors save the court fees. £565,000 As now debtor pays employer admin fee of £102,830	Court fees incurred are passed to debtors.
Additional volumes of orders. DWP 1,320, LAs 3,200	Assume average debt recovery of £25/month. (4,520 cases X £25 X 12 in year) £1,356,000	Employer admin allowed deduction. Expect 70p average charge. (4,520 cases at 70p X 26 in year) £82,264 Employer staff cost X time gives (4,520 cases at £1.15 X 26 in year). Payroll charge (4,520 cases at £3.75 per year). Average of these close to £82,264 so cost neutral.	Simpler process not requiring an application to the court.	Cost of repaid debt + employer 70p charge at each deduction. (£1,356,000 + £82,264) £1,438,264	Employer admin charge passed to debtor.
Additional voluntary agreements. DWP 1,650, LAs 4,000	Assume average recovery of £25/month. (5,650 cases X £25 X 12 in year), so £1,695,000	No activity by employer. Arrangement is between debtor & DWP or LA.	Already existing process.	Cost of repaid debt. £1,695,000	

Table 2: Annual volumes and assumptions

Activity	Exchequer	Business	Public Sector	Debtors
Continue at level of existing annual volumes, but without use of courts. DWP 1,650, LAs 4,000	Loss of court fees. Estimated 5,650 cases at (£100 each)	Employers use the already existing process, so no volume or cost change.	Reduction in court administration costs. Less time to administer each case.	A mixture of weekly and monthly paid. Assume average of 26 deductions per year at 70p each.
Additional volumes of orders applied to debtors. Assumed volumes as: DWP 1,320, LAs 3,200	Assume average recovery of £25/month.	Employer admin costs offset by allowed deduction. Micro business exemption. Employer costs separately estimated from staff time X hourly rate or payroll provider charges. Half of each.	Less time to administer each case	A mixture of weekly and monthly paid. Assume average of 26 deductions per year at 70p each.
Additional voluntary agreements with debtors. Assumed volumes as: DWP 1,650, LAs 4,000	Assume average debt recovery of £25/month.	No activity by employer as debtor comes to an arrangement with the DWP or LA.	Quicker to administer each case	

Exchequer and Public Sector Impacts

9. DWP and local authorities can utilise a more cost-effective way of recovering debt from wages of those in work and no longer in receipt of benefit. This option can be used with both elective repayment and cases where debtors choose not to repay. Some smaller debts become administratively cost effective to recover, since reference to the courts will not be required. These activities will be considered in regard to the DWP followed by the different volumes applying to local authorities.

DWP impact

10. In the six months from April 2010, DWP obtained 824 attachments of earnings orders through the courts. This suggests annual activity of around 1,650 cases. Under this measure, these would be replaced by cheaper DEAs that do not require reference to the courts. The actual debt recovered, already takes place through attachment of earnings, so does not represent additional recovery in the cost benefit analysis.

11. Annual court fees incurred by DWP and passed to debtors can be estimated on the basis of the simplest cases incurring a fee of £100 for each of the 1,650 cases. This produces an annual cost of at least £165,000. Under the measure, this represents a saving to debtors, since it is not necessary to refer to the courts, so there will be no court fees to reimburse. The courts charge fees for the services they provide, which are intended to cover their costs. As indicated under this measure they will lose the annual fees of £165,000 which thus equate to the administrative savings from reduced court administration.

12. Under this measure employers will still be able to charge an administration fee each time a deduction is made. As a result each debtor could pay an average of £18.2 (70p X 26) over a year in

administration fees to the employer. So an annual total of £30,030 (1,650 cases X £18.2). The background to the values is described more fully under business impacts (paragraph 27).

13. DWP overall staff time and costs are unchanged, as the activities to increase debt recovery will continue to utilise the same numbers of staff. As this measure will enable a more efficient and speedy approach to arranging the recovery of debt, extra staff time will be realised to pursue other debt recovery. It is assumed that staff time released will equate to the time taken to administer the additional number of DEA/voluntary recovery cases.

14. Potentially the volume of direct earnings attachments could rise further. The operational improvement plan for Child Maintenance and Enforcement Commission (C-MEC) who have been using these procedures for some time, indicated greater use of enforcement, with deductions from earnings being a large part. This indicated an 80% increase. With the large volumes described in paragraph 5, it is plausible that if the DWP is able to issue direct earnings attachments without applying to the courts, the number issued could easily increase similarly by 80%. This generates an additional 1,320 DEAs (1,650 cases X 80%) that could potentially be issued. An exemption for micro-businesses is included, where a micro business is defined as an employer with less than 10 employees.

a) Using the assumption of a debt recovery value per case of £25 per month, produces a debt recovery of an additional £396,000 per year (1,320 cases X £25/month X 12 months).

b) The employer administration fee charged for these additional cases is likely to total £24,024 (1,320 cases X 26 deductions at 70p).

15. The direct deduction of earnings would very much be a measure of last resort in much the same way that court action is presently. An impending DEA could also be expected to stimulate debt recovery through other methods. It can be expected that some debtors will be more likely to agree a voluntary debt repayment plan, leading to further debt recovery. A similar volume of debtors to the attachment of earnings orders of 1,650 a year will be assumed. Debt repayments are estimated here using an average recovery value per debtor of £25 per month. This is expected to be cautious as the rate is applicable to relatively low paid employment. This gives a result for the Exchequer benefits as £495,000 per year (1,650 cases X £25/month X 12 months). The value could be higher where the level of employee earnings from which debt can be recovered, are greater.

Table 3: Total annual DWP DEA debt recovery costs and benefits (£m).

£m	2010/11	2011/12	2012/13	2013/14	2014/15
DWP transition costs	0	0	0	0	0
DWP annual recurring cost	0	0	0	0	0
Total annual DWP costs	0	0	0	0	0
Transition benefits	0	0	0	0	0
Annual recurring benefits (Exchequer)	0	0	0.89	0.89	0.89
Reduced court administration	0	0	0.17	0.17	0.17
Total annual benefits	0	0	1.06	1.06	1.06
Additional employer charges to debtor	0	0	0.02	0.02	0.02
Lost court fees (hence reduced admin)	0	0	0.17	0.17	0.17

Local Authority Impact

16. The measure will also give local authorities the ability to make deductions from earnings to recover certain types of debt. They already make some use of attachment of earnings orders through the courts as one of their instruments for recovering overpayments. As described for DWP, this measure will make recovery from the earnings of debtors a relatively simple, administratively attractive option. Again the knowledge of its availability can also be expected to increase the number of voluntary agreements, so avoiding the employer administration charge with DEAs.

17. Annual totals of local authority court orders are not available. However county court data indicates that for the 12-month period ended in September 2010, there were a total of 48,000

attachments of earnings orders made, but without any breakdown to private or public organisations [reference 8]. It is assumed that there are a total of 4,000 of these orders made by all the local authorities, which is used for calculations in this impact assessment. With this measure, these would be replaced by cheaper direct earnings attachments that do not require reference to the courts. The actual debt recovered, already takes place through attachment of earnings, so does not represent an additional recovery in the cost benefit analysis.

18. Annual court costs incurred by local authorities are estimated on the basis of the simplest cases incurring a fee of £100 for each of the 4,000 cases. This produces an annual cost of at least £400,000. Under the measure, this represents a saving to debtors, since it is not necessary to refer to the courts, so there will be no court fees to reimburse. The courts charge fees for the services they provide, which are intended to cover their costs. As indicated under this measure they will lose the annual fees of £400,000 which can be assumed to be mirrored by equivalent cost savings in reduced court administration.

19. Under this measure employers will continue to be able to charge an administration fee each time a deduction is made. This is described further under business impacts. As a result each debtor could pay £18.2 (70p X 26) in the year as administration fees to the employer. So an annual total of £72,800 (4,000 X £18.2). The detail is described more fully under business impacts (paragraph 27).

20. Given the volumes of overpayments described in paragraph 6, there is potential for the volume of direct earnings attachments to rise in a similar way to that described above for DWP (paragraph 14). Using the C-MEC figure of 80% as a guide, gives an additional 3,200 (4,000 cases X 80%) attachments of earnings to issue each year. An exemption for micro businesses is again included.

a) Using the same assumptions of a recovery value per case of £25 per month generates a debt recovery of an additional £960,000 per year (3,200 cases X £25/month X 12 months).

b) The employer administration fee paid by the debtor for these additional cases as already described for DWP. This is likely to total £58,240 (3,200 cases X 26 deductions at 70p).

21. The direct deduction of earnings would very much be a measure of last resort in much the same way that court action is presently. An impending DEA could also be expected to stimulate debt recovery through other methods. It can be expected that some debtors will be more likely to agree a voluntary debt repayment plan, leading to further debt recovery. A similar volume of debtors to the attachment of earnings orders of 4,000 a year will be assumed. Debt repayments are estimated using an average recovery value per debtor of £25 per month. This is expected to be cautious as the rate is applicable to relatively low paid employment. This gives a result for the Exchequer benefiting at £1,200,000 per year (4,000 cases X £25/month X 12 months). The value could be higher if the level of employee earnings from which deductions are possible, is greater.

22. It is noted that for this estimation, the same number of local authority staff will be assumed to be working on debt recovery. Under this measure, arranging the recovery of debt will be a faster process. The staff time thus saved will be used to recover further volumes as already detailed. It is assumed that the staff time released will equate to the time taken to administer the additional number of DEA/voluntary recovery cases.

Table 4: Total annual local authority DEA debt recovery costs and benefits (£m).

£m	2010/11	2011/12	2012/13	2013/14	2014/15
LA transition costs	0	0	0	0	0
LA annual recurring cost	0	0	0	0	0
Total annual local authority costs	0	0	0	0	0
Transition benefits	0	0	0	0	0
Annual recurring benefits (Exchequer)	0	0	2.16	2.16	2.16
Reduced court administration	0	0	0.40	0.40	0.40
Total annual benefits	0	0	2.56	2.56	2.56
Additional employer charges to debtor	0	0	0.06	0.06	0.06
Lost court fees (hence reduced admin)	0	0	0.40	0.40	0.40

Business Impacts

23. With regard to business costs, it should be noted that there will be an exemption for micro-businesses (defined as those with less than 10 employees). Further that the measure allows employers to charge a fee of £1 at each deduction to offset their administration costs.

24. The summary in paragraph 8 listed three separate elements of debt recovery to be considered under this measure. There are different implications for business costs as follows:

a) Continuing to apply new cases at the same level as currently. However the new cases will make use of direct earnings attachment orders that do not need to go through the courts. Businesses already make these deductions when requested by the courts, so the costs incurred are already part of the process. Under this measure, employers can continue to levy a £1 administration fee at each deduction, so this does not represent any change.

b) Increased volume of such orders as a result of their simpler nature making smaller debts administratively cost effective to recover. It is intended that any increased cost to businesses should be offset by the £1 administration fee available at each deduction.

c) Additional voluntary agreements resulting from greater awareness of the principle of deduction at source. This is not expected to affect employers, since the debtor will come to a voluntary agreement with DWP or local authorities.

Actual employer administration charges

25. As noted above, this measure allows employers to charge a fee of £1 at each deduction to offset their administration costs. DWP had previously conducted a quantitative survey of employers around the administrative cost to make such a recovery for collecting child maintenance [reference 4]. This survey concluded that employers generally thought that the £1 charge was about right. Micro companies were significantly more likely to feel the charge was inadequate, but they are exempted in this measure. Medium companies were most satisfied with the amount of the charge. The £1 deduction is already standard for a range of orders [references 5 and 7]. Examples in addition to C-MEC, are Council Tax attachment of earnings orders [reference 7, annex C, paragraph 39].

26. Not all employers actually apply the fee. DWP research report notes that only 40% of all employers who are aware of the £1 administrative levy actually apply it [reference 4]. There is some variation by employment sector from 50% to a low 27%. The volumes considered under this measure are much smaller, so potentially more variable by sector. A rather higher response from employers of 70% is therefore assumed. This gives the average overall employer levy upon debtors of 70p per deduction.

27. The debtors in employment will be largely a mixture of weekly and monthly paid. So a middle range value of 26 payments per year is used. An average deduction per debtor over a year would therefore be £18.2 (70p on 26 occasions over a year).

28. The expected additional volumes of debtors are shown above in Table 2 as 1,320 for the DWP and 3,200 for local authorities. This gives the total annual employer charge levied as £82,264 (4,520 cases at 70p for 26 deductions over a year). A breakdown by year and organisation is shown in the following table.

Table 5: Total additional annual employer debt recovery administration costs (£m).

£m	2010/11	2011/12	2012/13	2013/14	2014/15
DWP debtors	0	0	0.02	0.02	0.02
Local authority debtors	0	0	0.06	0.06	0.06
TOTAL	0	0	0.08	0.08	0.08

29. To give a complete position, the following Table shows the equivalent estimated costs under the existing court procedures. As this already takes place under the existing regulations, these costs are neutral in regard to this measure.

Table 6: Current estimated annual employer debt recovery administration costs (£m).

£m	2010/11	2011/12	2012/13	2013/14	2014/15
DWP debtors	0	0	0.03	0.03	0.03
Local authority debtors	0	0	0.07	0.07	0.07
TOTAL	0	0	0.10	0.10	0.10

Estimates of employer administration costs

30. Various surveys look at employer administration costs. These are thought to be larger for employers that carry out payroll in-house without software [reference 11]. However the same reference expects these circumstances to continue to decline with HMRC online filing requirements. DWP research report found that most employers in the survey used an electronic payroll package [reference 4]. The exclusion of micro employers under this measure will also reduce the numbers with higher payroll costs.

31. The estimates of payroll provider costs in relation to the proposal for introducing personal pensions in 2012 are of some interest [reference 10]. This activity has some similarity to the implementation of an attachment of earnings order. The report presents the average increase in charges per employee due to personal accounts, which varied by size of company. The estimates can be seen to compare very favourably with the actual employer charges of £18.2 estimated in paragraph 27.

Table 7: Annual maximum additional payroll charge for personal accounts by size of business.

Client size	Range in number of employees	Maximum increase per employee per year
Micro (to 5)	1 to 5	Exemption
Small	5 to 49	£2.99
Medium	50 to 249	£3.75
Large	250 & above	£0.70

32. The table above demonstrates that the unit costs for such activities by larger companies are considerably lower as was also found in the DWP 2008 research report on deduction of earnings for child maintenance [reference 4].

33. A further estimate of employer administrative costs has been mentioned in paragraph 25, where the DWP had conducted a quantitative survey of the administrative costs to collect child maintenance [reference 4]. This concluded that employers generally thought that the £1 charge was about right as a reflection of the cost to their organisation.

34. The employer costs can also be built up from the length and cost of administrative staff time. Excluding micro companies, the additional time is indicated as a maximum of 1.2 minutes to make the monthly payment covering the personal account for each employee [reference 11]. However the DWP 2008 research report on deduction of earnings for child maintenance only presented broader time bands, which suggested a result of around 5 minutes on average [reference 4]. Taking the hourly cost of a personnel officer as £13.8 for 2010 gives a cost approaching £1.15 to make a deduction. The annual cost would then be close to £30 per debtor in a year (£1.15 X 26 deductions over year). However not all employers carry out these activities in-house. It has been estimated that around half of employees fall under payroll providers [reference 11]. This suggests a realistic annual estimate should use the average of the £30 and a payroll charge from Table 7. The maximum payroll charge is shown as £3.75. This gives a value of £16.9 (average of £30 in-house and £3.75 payroll provider). This estimate of average annual cost per employee is quite close to the actual annual employer charge levied (£18.2 in paragraph 27).

35. This would give the total annual cost under this measure as £76,275 (4,520 cases at £16.9 per case). Assuming cost neutrality for employer costs and actual charges would allow for some variation in

these figures. Hence the slightly larger value of £88,264 calculated in paragraph 28 will be used. Any variation in the annual volume of such deductions can be expected to change the overall costs by that amount for each case.

36. The distribution of the debtors under this measure is assumed to be in line with the number of employees in businesses of different size. The distribution of annual cost by organisation size is shown on page 3 and is based on the Office for National Statistics labour force survey data [reference 6].

Table 8: Annual cost distribution by organisation size

Business size	Micro	<20	Small	Medium	Large
% cost	Excluded	10.4%	24.7%	28.9%	36.0%

Small Firms Impact

37. No new regulatory requirement is being placed on businesses. The requirement to make attachment of earnings is already in place [references 4 & 5]. So firms do not have to make changes to the way they operate as a result of this measure. Any business can already be required to go through the process of setting up and making regular deductions for the first and subsequent occasions. Employers in England and Wales currently can receive an Attachment of Earnings Order, a Child Support Deduction from Earnings Order or a Council Tax Attachment of Earnings Order [reference 5]. Scotland uses a different terminology for similar activities. This measure includes an exemption for micro businesses (those with less than 10 employees), which can be set against the increase in overall volumes of such orders.

38. A range of businesses were consulted on the piloting of deduction of earnings orders in regard to child maintenance [reference 4]. As this measure utilises the child maintenance framework for businesses to apply the deduction of earnings, a further pilot is considered unnecessary.

Competition Assessment

39. The initial analysis of competition issues concludes that a detailed competition assessment is unnecessary. The requirement to make deductions from earnings already applies to all firms and there is no reason for it to affect the competitiveness of any particular area.

40. The proposal would not:

Directly limit the number of range of suppliers;

Indirectly limit the number of range of suppliers;

Limit the ability of suppliers to compete;

Reduce suppliers' incentives to compete vigorously.

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


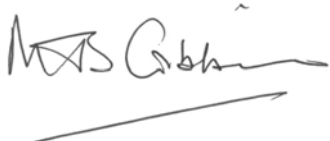
A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. If the policy is subject to a sunset clause, the review should be carried out sufficiently early that any renewal or amendment to legislation can be enacted 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 change will be reviewed.</p> <p>All analysis in the review will be subject to the ongoing availability of the underlying data.</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>To assess whether Direct Earnings Attachments (DEA) meet the broad objectives of increasing the percentage of debtors making repayments as set out in the impact assessment, for both enforcement of recovery and as an elective repayment choice.</p> <p>To consider any previously unforeseen operational difficulties with implementation and to ensure that it remains a cost effective method of enforcement / recovery.</p> <p>To calculate the actual costs & benefits to compare with the assumptions used in this impact assessment.</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> <p>A mixture of approaches will be used including:</p> <ol style="list-style-type: none">1) An analysis of internal debt data to provide statistics on the percentage and volume of all debtors making repayments together with the total recovered. This can be compared with some of the assumptions made in this assessment. An adjustment for changes in relevant factors will then give some indication of the effectiveness of the measure.2) Analysis of appropriate survey data, where relevant data is available.3) Taking account of C-MEC, which has been applying a very similar measure for some years. C-MEC data can also be used to check and refine some assumptions used in this assessment. <p>All the generated statistics will need to be adjusted for future measured changes such as economic circumstances to give a realistic estimation of the effectiveness of the measure.</p>
<p>Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]</p> <p>Current recovery percentage by volume and amount in the absence of the change.</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>DEAs should increase the percentage of debtors repaying as they both provide a deterrent to payment avoidance and offer DWP a means of securing recovery where customers refuse to pay. Success would be concluded if a significant increase was achieved in the percentage of debtors actively repaying their debt and thus leading to recovery where previously there was none.</p> <p>These results will require adjusting for the appropriate benefit caseloads applicable over the period.</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>Monthly management information on aspects of debt is available from the Debt Management Contact Centre.</p> <p>DWP regular surveys will be utilised where relevant questions on debt have been included.</p>

Reasons for not planning a review: [If there is no plan to do a PIR please provide reasons here]

Not applicable.

Add annexes here.

 Regulatory Policy Committee	OPINION	
Impact Assessment (IA)	Direct Earnings Attachment to Recover Overpaid Social Security Benefits	
Lead Department/Agency	Department for Work and Pensions	
Stage	Final	
Origin	Domestic	
Date submitted to RPC	27/09/2011	
RPC Opinion date and reference	11/10/2011	RPC11-DWP-1022(2)
Overall Assessment	GREEN	
<p>The IA is fit for purpose. The issue raised in the RPC's previous Opinion regarding the incorrect assessment of the impact on debtors is now fully addressed.</p>		
<p>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</p> <p><i>Costs and Benefits.</i> The RPC's previous Opinion of 10 August 2011 raised a concern regarding the cost-benefit analysis which has been fully addressed in this revised IA. In particular, the revised IA now clearly explains the scope of the proposal and the circumstances in which the Direct Earning Attachments (DEAs) are being used. The revised IA clarifies that the proposed measure primarily targets those who deliberately abuse the system and that it does not include official error overpayments. Following this clarification and based on evidence presented the assessment of costs and benefits can now be considered reasonable.</p>		
<p>Have the necessary burden reductions required by One-in, One-out been identified and are they robust?</p> <p>The IA says that the policy proposal is a regulatory IN with an Equivalent Annual Net Cost to Business of zero. This is because the Direct Earnings Attachment regime allows for businesses to charge for the cost of administration. Based on the evidence provided this appears to be a reasonable assessment of the likely net direct impact on business.</p>		
Signed 	Michael Gibbons, Chairman	