



National Audit Office

DEPARTMENT FOR WORK AND PENSIONS

Child Support Agency – Implementation of the Child Support Reforms

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Child Support Agency –
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GLOSSARY OF TERMS

The Agency	The Child Support Agency
The Department	The Department for Work and Pensions
CSCS	Child Support Computer System
CS2	New IT system for the processing of applications from 2003
Parent with care	The parent who is the main day-to-day carer of the children
Non-resident parent	The parent who is not the main day-to-day carer of the children
The Reforms	The Child Support Reforms
EDS	Electronic Data Systems
Child maintenance	The money that child support law says a non-resident parent must pay towards the cost of bringing up the children
Child maintenance calculation	The method that the Child Support Agency uses to work out how much child maintenance a non-resident parent must pay

PREFACE

On 9 February 2006 the Secretary of State for Work and Pensions signalled a major overhaul of Child Support. He announced that he had asked Sir David Henshaw to develop proposals for the future to provide the best possible arrangements to ensure more children receive the child support to which they are entitled. The proposals for a re-designed Agency, due to be delivered to the Secretary of State in summer 2006, are expected to provide options for the longer term policy and delivery arrangements. The Secretary of State told the House of Commons that the sheer scale of resource required to transform the Agency clearly demonstrates that in its current state it is not fit for purpose.

At the same time the Secretary of State announced that following an operational review of the Agency by the Chief Executive Stephen Geraghty, a Child Support Agency improvement plan, involving new investment of up to £120 million, has been launched to clear the backlog of cases, sort out operational problems and get much tougher on parents who do not meet their responsibilities.

The system of Child Support was last reformed when the Child Support, Pensions and Social Security Act 2000 introduced a new Child Support scheme that came into force for new cases and those with a link to a new case, from 3 March 2003, based on the Child Support White Paper – *A New Contract for Welfare: Children's Rights and Parent's Responsibilities*. This was necessary because the Agency was not meeting key targets and was suffering from a large backlog of unprocessed cases, low compliance of non-resident parents in making payments to parents with care and growing levels of debt owed to

parents with care. Many of the Agency's problems were the result of the complex rules for child support that it had to administer. The main features of the Reforms were the introduction of new rules for child support and a simplified calculation for maintenance, supported by a new IT system and a substantial business restructuring.

This report provides an independent assessment of:

- Why the problems implementing the Child Support Reforms arose (responding also to the Work and Pensions Select Committee's recommendation that the National Audit Office should examine the background to the Agency's contract with EDS, the Agency's chosen IT supplier);
- The impact on the quality of service provided to customers; and
- The action taken by the Agency in response to the problems and the lessons learnt.

The problems within the Agency are well publicised, our report is intended to be constructive by, not only providing an objective assessment of why problems arose, but by highlighting the key lessons that the Department and Agency have learnt through their experience of implementing the reforms. Based on this analysis and our review of the Agency's current performance, we highlight the key actions for the Agency as it takes forward its improvement plan, against the background of Sir David Henshaw's proposals for options for the future delivery of child support.

EXECUTIVE SUMMARY



The role of the Child Support Agency

1 Established in 1993, the Agency is responsible for ensuring that parents meet their financial responsibilities towards their children when parents live apart. Many people come into contact with the Agency at difficult times of their lives, for example after the birth of a child to a single mother or during divorce proceedings, and may be suffering financial hardship. For example, around 70 per cent of applications to the Agency are made when the parent with care makes a claim for income-related benefits, which is treated as a claim for child support maintenance. If they wish to end the claim for maintenance a parent with care may only avoid a financial penalty when they have cause to fear harm or distress if the claim continues. Parents not in receipt of benefits can ask the Agency to perform a maintenance calculation for them, although they may choose not to use the Agency to collect any money due.

2 The Agency's challenge is to work through often complicated emotional, financial and legal issues to bring about a degree of financial stability for children and parents. To do this the Agency has a number of tasks to carry out:

- An assessment of each application – including identifying and locating the non-resident parent and confirming paternity;
- Calculating the maintenance payable by non-resident parents – establishing the non-resident parent's income or benefit status, determining the existence of children in the non-resident parent's current household and confirming levels of shared care;

- Maintaining the accuracy of maintenance assessments – after the initial assessment the Agency has responsibility to action any relevant changes of circumstances that are reported by either the parent with care or the non-resident parent, by recalculating the maintenance payable;
- Collecting money from non-resident parents and paying this to the parent with care or to the Secretary of State where the parent with care is in receipt of benefits – including setting up payment schedules; and
- Enforcing assessments – chasing missed payments and collecting debt which may have built up and pursuing non-compliant non-resident parents as far as necessary to achieve payment.

3 The system of Child Support was last reformed when the Child Support, Pensions and Social Security Act 2000 introduced a new Child Support scheme that came into force from 3 March 2003 for new cases and those with a link to a new case, based on the Child Support White Paper – *A New Contract for Welfare: Children's Rights and Parent's Responsibilities*. Many of the Agency's problems were the result of the complex rules in the original child support scheme that it had to administer. The main features of the Reforms were the introduction of new rules for child support and a simplified calculation for maintenance (see **Box 1 overleaf**), supported by a new IT system and a substantial business restructuring.

BOX 1

The Child Support System following the Reforms

The new child support scheme is based on the net weekly income of the non-resident parent and includes:

- a simpler system of rates for working out how much child maintenance should be paid;
- **a child maintenance premium.** This allows a person with care who is getting Income Support or income-based Jobseeker's Allowance to keep up to £10 a week of the child maintenance paid as well as their benefit;
- lower rates of child maintenance for non-resident parents who have children living with them, including any stepchildren; and
- new powers for the Child Support Agency to make sure that the Agency can work out child maintenance quickly and collect it successfully.

Child maintenance is calculated by applying one of the following four rates to the non-resident parent's net weekly income:

- **basic rate** when net weekly income is £200 or more. The basic rate is based on percentage rates of the net weekly income. The percentage rates are set down by law. They are:
 - 15 per cent if there is one child;
 - 20 per cent if there are two children; and
 - 25 per cent if there are three or more children.
- **reduced rate** when net weekly income is more than £100 but less than £200. The reduced rate is £5 a week for the first £100 of the net weekly income; plus a percentage of the net weekly income over £100.
- **flat rate** when net weekly income is between £5 and £100 inclusive, or the non-resident parent is in receipt of benefit. The flat rate is £5 a week for any number of children.
- **nil rate** when net weekly income is less than £5, or, for example, the non-resident parent is a student or a prisoner.

4 Where it works well the Agency manages to secure regular contributions from non-resident parents and transfer this to the parent with care or the Secretary of State, where the parent with care is in receipt of benefits (see Figure 2 on page 10). By the end of 2006 the Agency estimates that it will have collected over £5 billion in maintenance payments since it was formed in 1993 and currently administers 1.5 million live cases. Well publicised problems with the new IT system and organisational difficulties however, have meant that the Reforms have not been implemented effectively, with the result that the Agency has continued to under perform significantly against its targets (see Figure 1) and large numbers of the Agency's customers have failed to benefit from the new arrangements.

A number of factors have contributed to the Agency's difficulty in implementing the Reforms

5 It is clear that there have been problems with the design, delivery and operation by EDS of the new IT system that underpins the Reforms. For example, an independent review by the FELD¹ group in October and November 2003, some nine months after the new system went live, concluded that its stability and performance required significant improvement. Nevertheless, there were a number of factors that the Agency could influence that meant that the Reforms were not the success that had been hoped for:

- It did not have sufficient internal technical resource to be an intelligent customer of EDS;
- The Department's original contracting strategy was inappropriate;
- It took some time to develop a full partnership with EDS;
- There were a number of serious governance failures;
- Planning was over optimistic; and
- A continuing culture of non-compliance with established systems of control.

1 The FELD Group is an IT consultancy based in the United States which EDS bought in January 2004.

1 The Agency's performance against key targets since 2000 (per cent)

	1999-2000 target (outturn)	2000-01 target (outturn)	2001-02 target (outturn)	2002-03 target (outturn)	2003-04 ¹ target (outturn)	2004-05 target (outturn)	2005-06 target (outturn)
Case compliance							
Old scheme	70 (70)	71 (71)	71 (73)	71 (76)	75 (-)	75 (72)	75 (75)
New scheme	-	-	-	No target	78 (-)	78 (66)	78 (67)
Cash compliance							
Old scheme	67 (68)	68 (70)	68 (71)	68 (73)	68 (-)	68 (73)	68 (75)
New scheme	-	-	-	No target	75 (-)	75 (61)	75 (63)
Accuracy							
Old scheme	78 (70.5)	78 (67.4)	78 (82.4) ²	80 (83.3)	82 (86)	82 (78)	82 (84)
New scheme	-	-	-	No target	90 (82)	90 (75)	90 (81)

Source: Child Support Agency Annual Report and Accounts 2004-05, and Comptroller and Auditor General's report Child Support Agency Client Funds Account 2004-05

NOTES

- 1 No reliable information is available on performance against compliance targets for this year.
- 2 The measure of this target changed from this year from cash value of all assessments checked in year to accuracy of the last action on all the assessments checked.

6 Expert external advice in July 2000 before the Department's contract with EDS for the provision of a new IT system, known as CS2 was signed, was that the Agency's requirement for a large complex IT system to a tight timetable was at the upper end of what was achievable. Coupling development of the IT system with a fundamental re-alignment of the Agency's business arrangements further increased the risks to successful delivery for an organisation, when the Reforms were announced in 1999, was under-achieving and already stretched.

7 With such a high inherent risk, the Agency's governance and mitigation strategies needed to be exemplary to have a reasonable chance of successful delivery. On paper the governance arrangements looked robust, based around a Programme Board, which met each month to consider progress and to assess how

various risks were being managed against a common risk register with EDS. The programme was subject to a number of internal reviews, including 40 internal audit reviews. Seventy per cent of the assurance ratings in the internal audit reviews were in the nil or limited categories indicating significant risk or control weaknesses. None of the reviews provided full assurance. There were also a number of external reviews, including two Gateway reviews by the Office of Government Commerce, at key stages of the development cycle, which expressed important reservations about how the Agency was delivering the Reforms. Wherever possible the Department and Agency tried to follow the professional advice provided in these reviews. The Agency has spent £91 million on external expertise during the Reform programme.

2 Examples of Child Maintenance applications¹

Application made by parent with care not in receipt of income related benefits

Example: Alison and Steven have divorced after four years of marriage. They have a three year old son, Jack, who is living with Alison. Alison and Steven have decided to ask the Agency to calculate how much maintenance Steven should pay based on his current income.

Parent with care completes 'Maintenance Application Form' with details of the qualifying child(ren) and full details of the non-resident parent.

Example: Alison contacts the Agency direct and completes the maintenance application form, registering Jack as the qualifying child. Alison provides Steven's contact details so that the Agency can send out a 'Maintenance Enquiry Form'.

Maintenance Enquiry Form sent to non-resident parent to confirm that they are aware of the child and for details of current financial position. Non-resident parents are required to provide proof of their income.

Example: Steven is sent a Maintenance Enquiry Form to complete. This asks him to confirm that he is Jack's father and what child care arrangements are currently in place. Steven is also asked to provide details of his current income and any voluntary payments that he is making to Alison for Jack, of which there are currently none. Steven has also provided copies of his last three months payslips from his employer as proof of his income.

Maintenance Enquiry Form returned with proof of income, making it possible for the Agency to make a maintenance assessment calculation.

Example: The caseworker assigned to Alison and Steven's case enters all the information provided into CS2 in order to calculate Steven's net weekly income. As there is only one child, Jack, the assessment will total 15 per cent of Steven's net income. The Agency provides this information to both Alison and Steven.

Parent with care and non-resident parent informed of the calculation who choose how maintenance is paid.

Example: Alison and Steven agree on the calculation and decide to make their own direct arrangements for payment, not involving the Agency, known as Direct Maintenance.

Non-resident parent makes payments to parent with care, either through the Agency or directly, fulfilling their responsibility towards their children.

Application made by parent with care applying for income related benefits

Example: John has recently separated from his partner, Shabana, and has day to day responsibility for seven year old Chloe and two year old Callum. Since the separation John has not worked and has now applied for Income Support. Shabana looks after the children every weekend and is self employed.

Jobcentre Plus Personal Advisor completes 'Maintenance Application Form' with benefit applicant and passes this to the Agency.

Example: At his local Jobcentre Plus office, John applies for Income Support and is required by law to complete an application for maintenance assessment. John registers both Chloe and Callum as the qualifying children and Shabana as the non-resident parent.

The Agency receives the completed maintenance application form through the Jobcentre Plus interface and sends maintenance enquiry form to non-resident parent.

Example: Shabana receives a maintenance enquiry form and confirms that she is the mother of both Chloe and Callum. As she is self employed Shabana completes details of her income and provides supporting evidence of this. Shabana also provides details of the shared care arrangements she has with John.

Agency receives completed maintenance enquiry form and can now make maintenance calculation.

Example: The Agency using the information provided by John and Shabana to calculate Shabana's net weekly income. As Shabana shares the care of the children the system reduces the total of her net income. As there are two qualifying children Shabana must contribute 20 per cent of this each week or month.

Maintenance schedule set up and payment method agreed between Agency and non-resident parent.

Example: Shabana receives confirmation of the assessment and chooses to pay monthly by Direct Debit. As the value of this is less than the Income Support John is currently receiving from Jobcentre Plus, this money is paid to the Secretary of State as a contribution towards this. As John co-operated with the process and once Shabana makes her first payment, John will receive a Child Maintenance Premium, up to an additional £10 per week in maintenance paid by the Agency.

Payments from non-resident parents recovered on behalf of the Secretary of State.

Source: National Audit Office

NOTE

¹ These examples represent the more straightforward cases that the Agency processes.

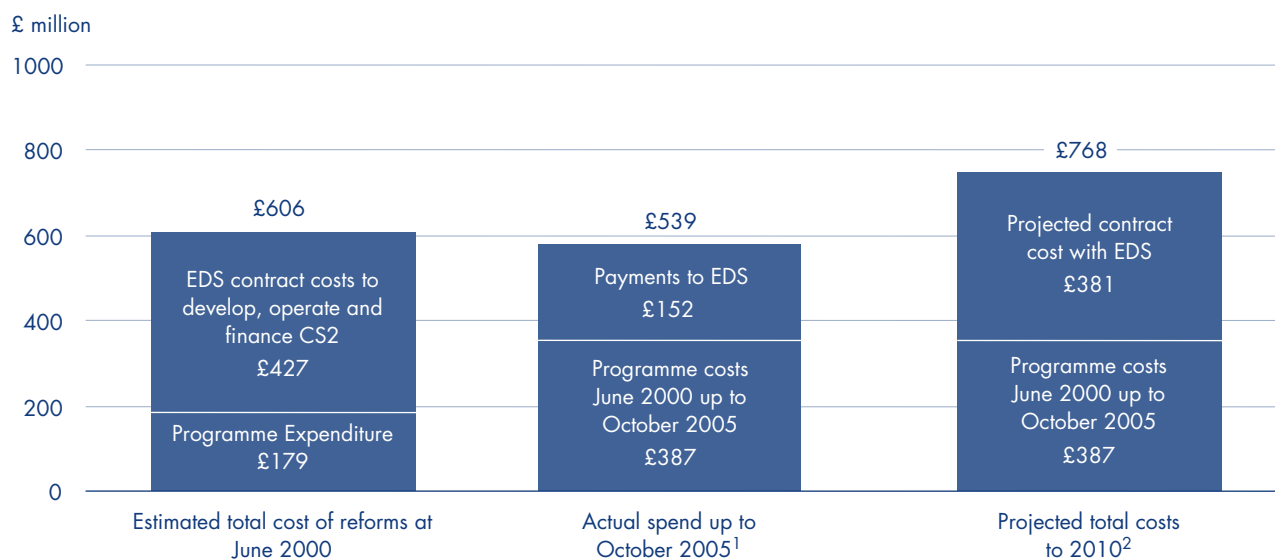
The Child Support Reforms have so far failed to deliver the expected improvements for customers

8 The Child Support Reforms have failed to deliver the improvements in customer service and administrative efficiency, which might have been expected from the much-needed new rules, simplified calculation and a new IT system. The Reforms were a final, but in the event unsuccessful, attempt to deliver the policy that led to the establishment of the Child Support Agency in 1993. This policy required a complex administrative process with poor incentives for compliance on the part of many, perhaps most, customers. With hindsight, the Agency was never structured in a way that would enable the policy to be delivered cost effectively.

9 So far the Reforms have cost £539 million, compared to an estimated cost in the original business case of £606 million up to 2010. While they have benefited a number of the poorest parents and children, overall the new scheme has performed no better than its predecessor, although there are signs of improvement (see Figure 3).

10 By October 2005, when the Reform Programme was closed, the Agency had spent £539 million on implementing the Reforms. This included payments of £152 million to EDS, part of the total realigned contract costs of £381 million up to August 2010. Implementation of the Agency's Operational Improvement Plan announced in February 2006 (see Figure 4 overleaf), which includes some funding to support further improvements to the Agency's business not originally planned for in the Reforms, will cost an anticipated £321 million up to April 2009. Future work to enhance the CS2 system as part of this plan will require significant investment. Over a third of the Operational Improvement plan funding, £120 million, will be additional agreed finances and the remainder will be made up of money saved through the realigned contract with EDS (£62.5 million) and savings from elsewhere in the Agency (£138.5 million). This excludes any further investment following the proposals by Sir David Henshaw due Summer 2006.

3 Costs of the Child Support Reforms up to 2010 (£ million)



Source: National Audit Office analysis of Child Support Agency financial data

NOTE

- 1 The Child Support Reform programme was closed in October 2005.
- 2 Excludes the future costs of managing the contract with EDS which will form part of the Operational Improvement Plan.

4 Summary of the Child Support Agency Operational Improvement Plan

The operational improvement plan, announced on 9 February 2006, aims to improve service to customers, increase the amount of money collected and achieve greater compliance from non-resident parents over the next three years. By March 2009 it is expected to have cost £321 million, of which £120 million will be additional investment. It focuses on four key elements:

	Current situation:	Expected improvements:
<p>Getting it right: gathering information and assessing applications by:</p> <ul style="list-style-type: none"> ■ increasing staff and productivity ■ improving the ability to trace non-resident parents ■ improving the accuracy of assessments ■ improving communication with clients 	<p>Backlog of 267,000 new scheme applications</p> <p>66,000 old scheme applications not yet progressed</p> <p>34 weeks on average to clear cases (scheme to date)</p> <p>Only 81 per cent of new scheme assessments accurate</p>	<p>Increasing productivity of existing staff and increasing the number of staff in total to reduce the backlog of uncleared applications.</p> <p>Introducing senior caseworkers to manage more complex cases to ensure they are cleared within 18 weeks.</p> <p>By March 2008, 80 per cent of new cases expected to take no more than 18 weeks to clear and by March 2009 no more than 12 weeks.</p>
<p>Keeping it right: active case management by:</p> <ul style="list-style-type: none"> ■ making collection and payment more effective ■ responding to change requests more quickly ■ increased effectiveness and productivity ■ letting clients know what is happening 	<p>One in three non-resident parents with a positive maintenance liability are totally non-compliant and many more are only partially compliant</p> <p>Clients experiencing difficulty contacting the Agency</p>	<p>Collecting an additional £140 million in maintenance collected by March 2008 growing to £250 million by March 2009.</p> <p>Additional 60,000 parents with care in receipt of Child Maintenance Premium by 2008, growing to 80,000 by March 2009.</p> <p>Increasing the case compliance from 65 per cent to 75 per cent by March 2008 and 80 per cent by March 2009.</p> <p>By March 2009, 90 per cent of telephone calls answered within 30 seconds.</p>
<p>Putting it right: enforcing responsibilities by:</p> <ul style="list-style-type: none"> ■ managing non-resident parents with child support debt more effectively ■ court action against those who do not pay ■ increasing awareness of the impact of not paying 	<p>Accumulated debt of £3.5 billion as a result of non-resident parents not meeting their obligations</p> <p>Failure to act quickly enough when non-resident parents fail to pay</p>	<p>Increased enforcement action and action in courts to recover money owed.</p> <p>Using debt collection agencies to recover over £100 million historic debt over three years.</p> <p>Increase in enforcement staff from 600 to over 2,000 to increase case and cash compliance.</p>
<p>Getting the best from the organisation by:</p> <ul style="list-style-type: none"> ■ changing the structure of the way in which applications are processed making more people and resources available to meet the challenge ■ resolving the IT problems ■ standardising processes ■ managing performance ■ focus on client outcomes 	<p>Only half the Agency's staff currently involved in active case work</p> <p>Managing 19,000 cases clerically is time consuming and costly</p> <p>Estimated 36,000 cases stuck due to IT failures</p> <p>Processed based service, with no service standards</p> <p>Complex complaints process</p> <p>Poor client relations</p>	<p>Re-deploying 1,700 staff from their current Agency role and an additional 1,000 staff on active case work, to reduce the backlog of work and reduce the time taken to clear 80 per cent of cases within 12 weeks by March 2009.</p> <p>Senior caseworkers to support more complex cases and ensure clearance within revised customer service levels.</p> <p>External contractors to deal with clerical case work in order to release staff for active case work.</p> <p>Establish service standards for customers, clearer communications and stakeholder engagement.</p> <p>Resolution of complaints at earliest point.</p>

NOTE

A copy of the Operational Improvement Plan can be obtained through the Child Support Agency website at www.csa.gov.uk/new/oip/

11 A substantial amount of work has been undertaken to resolve defects in CS2 since it went live in 2003. Although these have improved the system to some extent, some 600 manual workarounds still exist and a large number of cases are experiencing technical problems. The Agency has agreed a prioritised programme of work with EDS to rectify some of the remaining problems and the Agency now expects the system to be running at the originally expected level by the end of 2007.

The impact on the quality of service provided by the Agency has been significant

12 Three years after the introduction of the new arrangements many parents with care are benefiting from the Child Maintenance Premium which entitles parents with care on benefit to receive up to an additional £10 per week in maintenance. However, some parents with care on income support may be losing up to £520 a year additional maintenance through the Child Maintenance Premium. The majority of the Agency's caseload (61 per cent) have not yet benefited. There is currently no date for the conversion of the 923,000 old rules cases. As a result, some non-resident parents may be paying higher or lower maintenance than they would under the new rules and some parents with care may be receiving higher or lower amounts of maintenance than would be payable under the new scheme.

13 An estimated 36,000 new cases have become stuck in the system due to failures with the new IT system and are not currently able to progress without manual intervention by the Agency. Around 19,000 of these are now being progressed clerically, outside of CS2, in cases where the customer has made an official complaint to the Agency and the case has been identified and removed from the system. This number is likely to increase until new software is released that fixes known problems and enables stuck cases to progress through the new system. The Agency estimates that 700 staff would be needed to support the management of these cases.

14 One in four of all new applications received since March 2003 are waiting to be cleared. In total around 267,000 new scheme cases and a further 66,000 old scheme cases are waiting to be cleared, at various stages of the process, representing the current backlog of work. Only between February 2005 and January 2006 has the Agency cleared more applications than it received, and the backlog of uncleared cases has increased during February and March 2006. Between January 2005 and March 2006 the number of uncleared old scheme applications fell by eight per cent, reducing the number of uncleared applications from 362,000 to 333,000.

15 The Agency has so far failed to realise the anticipated improvements in more timely decision making and more accurate assessments. Under the new system it was expected that a calculation would have been made and payment arrangements would have been put into place for the majority of cases within six weeks of the application being received. So far only 20 per cent of new scheme cases cleared to date have done so within this time. On average new scheme cases are taking 34 weeks to clear, and the average age of cases cleared in March 2006 was 38 weeks. This can have a major impact on both parents with care, where they are not in receipt of any maintenance for their children, and non-resident parent, where the amount owed by the non-resident parent starts to accumulate. Of the most recent cohort of cases cleared, 45 per cent (6,300 cases) of new applications received in December 2005 were cleared within 12 weeks and 66 per cent (11,200 cases) of new applications received in September 2005 were cleared within 26 weeks.²

² These figures exclude a number of potential cases that had come via the Jobcentre Plus interface, for which no management information is currently available. The September figures excludes 7,000 such cases from an intake that month of 24,000 cases, and the December figures excludes 9,000 cases from an intake of 23,000.

16 During 2004-05 over half of the full maintenance assessments reviewed as part of the National Audit Office's annual assessment of accuracy throughout the lifetime of the case were found to have errors made on them at some time. For 10 consecutive years the Comptroller and Auditor General has qualified his audited opinion on the Agency's Client Funds Account due to the effects of these errors on the accounts. The Agency has an annual target to get the last decision made for all maintenance calculations in the year to be correct to the nearest penny in at least 90 per cent of cases. During 2005-06 81 per cent of the last decisions made in the new scheme cases checked by the agency were found to be correct, up from 75 per cent the year before (see Figure 16, page 62).

17 More new scheme applications are resulting in non-resident parents expected to contribute financially to their children and the number of nil assessed new scheme cases is much lower for new scheme cases (13 per cent) than old scheme cases (53 per cent). Compliance for new scheme cases however is lower than old scheme cases and almost one in three non-resident parents do not pay any maintenance where the Agency has assessed money is due. In around 112,000 cases the Agency has successfully calculated the maintenance due and the parent with care has elected to receive the money direct from the non-resident parent.

18 In terms of the amount of maintenance collected, in 2004-2005 it cost the Agency £0.54 to collect £1 in maintenance from non-resident parents, excluding the costs associated with implementing the Reforms and the CS2 system. Including these costs increases the cost of collecting £1 of maintenance to £0.70. This largely reflects in part a policy that requires the Agency to collect and transfer relatively small amounts of maintenance from, and on behalf of, relatively poor customers. These customers have poor incentives for compliance and tend to experience frequent changes of circumstances. As a consequence, the Agency's performance continues to lag behind the organisations responsible for child support in certain other countries such as Australia, who use a different model.

19 Many customers continue to experience poor levels of service from the Agency and complaints continue to grow. During 2005-06 the Agency received 55,000 complaints (around four per cent of current case load) from its customers. During 2005-06 the Independent

Case Examiner's Office, which provides a free impartial complaint review and resolution service to Agency customers, accepted 1,348 complaints for investigation, up from 1,257 in 2004-05. Overall 41 per cent of complaints to that office during 2005-06 were about delays in processing the case and a further 25 per cent were about errors on the assessment. There are currently around 1,000 members of staff within the Agency responsible for dealing with cases where complaints have been raised.

20 Where non-resident parents fail to pay the maintenance due it can cause real hardship and have lasting consequences for the parents with care and the children. At present there is an estimated £3.5 billion of outstanding maintenance to be collected, although 60 per cent of this is considered uncollectable where, for example, the debt relates to a case where the parents have reconciled. The Agency has no power to write off any debt at present, and until all non-resident parents pay maintenance in full, this will continue to rise.

21 To date the Agency has not made full use of the range of enforcement powers it has available. Enforcement activity is now increasing, with 42 per cent more liability orders secured last year, from 6,782 in 2004-05 to 9,604 in 2005-06, not including activity in Scotland, enabling the Agency to take action to recover the debt. There are around 19,000 cases currently with enforcement teams. This represents a small percentage of the 127,000 cases where the non-resident parent has paid nothing despite requests for payment, in addition to around 120,000 non-resident parents who have only partially paid.³ At the moment however enforcement activity is difficult to target as the Agency's systems do not enable enforcement teams to easily identify what debt exists on cases and which non-resident parents are the most persistent offenders. During 2004-05 enforcement teams collected around £8 million in direct payments, although this does not take account of any future payments made by the non-resident parents in these cases. The total cost of enforcement activity during 2004-05, including work on penalties, fraud investigations and information gathering, was an estimated £12 million.

³ It is not possible to determine how many non-resident parents paying via Maintenance Direct are partially compliant as this is a private arrangement between the parent with care and the non-resident parent.

Action taken by the Department and Agency in response to problems and the lessons learnt to prevent similar problems in future

22 The Department are now building a cadre of high calibre professionals to help deliver quality IT systems in future. This is necessary because, as the Department and Agency has recognised, it had too limited an internal technical resource capable of checking effectively the system design and build delivered by EDS. This was as a result of the decision to outsource in August 2000 to EDS most of the Department's and Agency's IT capability, previously provided in-house by the Information Technology Services Agency. It was not helpful that the Programme Board was made up of Departmental officials and representatives of EDS who were under pressure to keep up the momentum of the programme. There was no independent voice, for example, from an expert non-executive, to challenge the validity of assurances given by EDS. This diminished the Department's ability to act as an intelligent customer and maintain control of the project and gave rise to significant doubts about the completeness and adequacy of the Agency's risk assessment. This all had a negative impact on the design of CS2 and the acceptance process.

23 From 15 August 2005 the Department realigned its contracts with EDS in order to simplify the complex structure of contracts it inherited from the former Department of Social Security and the Department for Education and Employment. The expected benefits of these new arrangements include the provision of standard IT services at market competitive prices, a clear set of service standards for EDS and an ability to compare processes and prices with other organisations. EDS have struggled to deliver a system that was fit for purpose within the required timescales. By March 2002, the original planned start date for the Reforms, testing of CS2 could not be completed satisfactorily which eventually led to a year's delay. When the Reforms were introduced in March 2003 the IT system had 14 critical defects.

24 In the last year all software releases designed to remediate the system have been delivered successfully on time. But there remain 500 faults with CS2 still to be dealt with, nearly three years after the system went live. One of the consequences of this is that the Department has been unable to use CS2 as a platform for wider utilisation across the Department, as originally hoped in the business case in 2000.

25 It is now mandatory for all new Departmental programmes to be subject to Office of Government Commerce (OGC) Gateway reviews. The start-up phase of the Reforms took place before Gate 0 was introduced as part of OGC Gateway reviews. Gate 0 is recommended for all programmes to confirm that appropriate management structures, resources and stakeholder support have been established. This review would have provided the Agency's management and Ministers with a valuable independent assessment before substantial public funds were committed to the Reforms.

26 It is now recognised that the Private Finance Initiative approach adopted for CS2 is not appropriate for IT systems, although it was the Government's preferred approach in 2000. The Department will not use it for future IT developments. The contract with EDS in September 2000 followed the strong trend at that time towards a long contract period where payments from the Department to EDS were heavily weighted towards the latter years, particularly after any development work was completed and the system was implemented. In this way EDS's initial investment would be recouped through continuing operational and support charges. This type of arrangement typically yielded a substantial financing cost to the customer, which in this case for the Department was particularly high at £107 million against a total contract value for the development of the system of £225 million.

27 However in our view, even within the context of PFI contracts of the period, certain elements of this contract were not conducive to good governance and control and contributed to the difficulties that were later encountered, including the later commercial dispute between the Department and EDS, notably:

- There was a lack of clarity over the desired outcomes and the functionality of the required system;
- There was limited guidance on how change would be managed and the Department's responsibilities for delivering the final systems;
- No mention was made of the method by which EDS might terminate its involvement; and
- There was no provision in the contract for a management information system beyond scoping.

28 The Agency introduced a Governance Improvement Plan in January 2004 that heralded a positive change in the Agency's approach to governance and control of the Reforms. This was necessary because previously a number of governance failures exposed the Agency to serious risk:

- A major contributing factor to the difficulties encountered by the Agency was that there was too much unrealistic optimism in planning up to January 2004, from which date planning can be seen to be more credible and realistic;
- In July 2001 the Department stopped work on a contingency option to CS2. No such contingency was ever developed. This was one of the significant factors which the Department took into account when, in February 2004, it considered its options of continuing to work with EDS. Repudiation of the contract by the Department or EDS would have carried significant risks to both parties' reputation and possible counter claims for financial redress. The Department could have bought the system from EDS if the contract had been terminated. Nevertheless, the Work and Pensions Select Committee were right to be concerned that if EDS had repudiated the contract the reform programme would have stopped and the IT system would have collapsed;

- In December 2002, the Agency paid EDS an initial £65 million in respect of the IT system, saving some finance charges. At this time contract changes also increased the overall contract price from £427 to £456 million;
- As noted in paragraph 2.40, when the Reforms were implemented in March 2003 there were 14 critical defects in CS2 where no clear fixes existed or where mitigation plans were unsatisfactory. All key stakeholders had confirmed that there were manual workarounds which would not significantly affect productivity. But this did not prove to be the case and manual workarounds have continued to be a feature of the Agency's working arrangements with 600 workarounds still in place; and
- Not all CS2 releases and telephony releases had passed through the agreed assurance processes. One consequence of this is that the remedies available to the Agency in the event of IT system failures were restricted.

29 The Agency's planning is now more strategic and realistic. A more cautious approach is now advocated so that planning can be regarded as credible and realistic, particularly from an operations point of view and is now carried out more closely with operations' staff than previously has been the case at times.

30 It is recognised that a key determinant of success is the commitment to work in full partnership with EDS. It was recognised by early 2004 that, with senior management already taking the lead, closer working relations based on partnership needed to operate at all levels of the Reform programme in both the Agency and EDS. There is now a strong commitment, within EDS and the Department, to work closely together and learn from the past for mutual benefit.

31 The Agency now places greater emphasis on the need for staff to comply with laid-down procedures. The Agency experienced difficulty in making the cultural shift anticipated in the business case for the Reforms. It has had a perennial problem in obtaining from staff compliance with policies and procedures, exacerbated further by the 600 manual workarounds in place. For example, over the last three years the majority of internal audits have reported some level of non-compliance in their findings ranging from relatively minor aspects to whole areas of business.

32 The Agency and EDS have learned valuable lessons about the need to redesign and simplify business processes as an integral part of IT projects. Some of the shortcomings in the functionality of the CS2 system were due to the complexity of the business processes to be supported by the new system and the quality of the data to be transferred to and processed by it.

The Operational Improvement Plan should, if implemented successfully, help to stabilise the performance of the Agency

33 The Agency has now recognised that the problems that affect its current performance are deep rooted and complex, reflecting not only the operational and IT system issues that have accumulated over the last 13 years, but also the complexity and instability of modern relationships. The Operational Improvement Plan (Figure 4), announced on 9 February 2006, aims to improve the Agency's performance whilst work to redesign policy and delivery arrangements is undertaken by Sir David Henshaw. Whilst previous recovery plans have tended to be largely internally focussed and reactive, the Improvement plan is clearly more strategic and externally focussed, aimed at improving the delivery of services to customers.

34 Although the Operational Improvement Plan has been finalised, the details of how each of the elements will be delivered had not been finalised at the time of this report but is intended to deliver improvements over the next three years. The Agency recognises that there are no quick fixes for its problems and it is essential, given the Agency's previous experience, that delivery of the improvement plan is closely led, managed and monitored using effective management information.



RECOMMENDATIONS

35 The Agency's Operational Improvement plan appears to address the barriers preventing the Agency from performing effectively. In implementing the plan, based on our analysis of the Agency's current performance, we consider that the Agency must pay particular attention to the following key elements to ensure that:

- **Complete, accurate and timely management information is available** – to enable management at all levels to monitor performance and identify more quickly where problems arise and assess the impact of any future developments to the delivery model. Until recently, no reliable management information has been available on the Agency's performance. Although more data is now available than ever before, there continue to be significant gaps in the Agency's knowledge of all the cases where the IT system is unable to produce reliable information. There is currently no reliable data available on the cases being managed clerically or those where manual payments are being made.
- **As a priority, it stabilises the IT system so that stuck cases can be progressed and new applications do not encounter problems.** – Following realignment of the Department's contracts with EDS, the Agency is now working in partnership with them to rectify the known problems. Based on successful software deliveries in the last year, anticipated releases are expected to remedy a number of problems that are preventing the largest numbers of cases progressing.

Work is ongoing to identify the remaining technical faults and the Agency should work closely with EDS to ensure that these are dealt with as a priority. In doing so the Agency should monitor closely and critically EDS's capability to deliver the necessary fixes.

- **An Agency wide strategy is developed to re-establish public confidence in the child support arrangements and communicate to the public improvements in the Agency's performance.** – In order to process child maintenance applications the Agency is reliant on the information provided by a number of different parties, unlike other Child Support Agencies for example the Australian Agency. Failure to supply the information required or delaying providing information can impact significantly on the Agency's ability to process applications quickly and accurately, as well as impact negatively on the welfare of the children involved. Whilst the Agency continues to perform badly parents may be less willing to engage in a process that they perceive as unfair, inaccurate and slow. Through improved performance the Agency needs to rebuild confidence that the assessments it makes are fair and that parents with care and non-resident parents fully understand their roles in ensuring that maintenance calculations are timely and accurate.



- **Staff are required to use the IT system to the full extent possible in accordance with the standard operating process and in other respects comply with laid down policies and procedures.**

– The Agency needs to make the cultural shift anticipated when the reforms were proposed to reduce non-compliance across the organisation to an acceptable level. To achieve this it needs to understand the reasons why this has been a problem in the past, so that steps may be taken through education, training and management to ensure that it adopts the ethos of a first rate financial institution. In particular, the Agency has to rebuild staff confidence in the ability of the system to process cases successfully when known problems are corrected, so that they use it as intended to process applications and realise the anticipated efficiency gains. A number of manual workarounds are currently used to process cases and it is essential that successful IT fixes are properly communicated to prevent the unnecessary use of workarounds.
- **It continues to maintain the robust approach to governance and risk management that it has developed during implementation of the child support reforms.** – These arrangements should be embedded throughout the business and the Agency's executive team and supported by the Agency's audit committee which should continue to monitor closely their effectiveness.
- **Implementation of the Operational Improvement Plan should be formally constituted as a project subject to OGC Gateway reviews** – to provide a series of independent assessments and advice to help safeguard the further substantial sums being committed to improving the Agency's performance. The project team should have a strong non-executive presence and should seek to mobilise expertise acquired from similar successful projects across the Department wherever possible.

ANNEX A

Key events during the implementation of the Child Support Reforms

Event	Date	Estimated costs
A review of the Child Support Agency's Information Systems Strategy recommended that a new system should be procured, to better support the business (see paragraph 2.3)	1995-96	£70 million – estimated by Electronic Data Systems (see paragraph 2.3)
Faith Boardman replaces Ann Chant as Chief Executive of the Child Support Agency (paragraph 1.5)	April 1997	
Child Support Agency system recognised as failing to deliver regular maintenance and had become discredited (paragraph 1.8)	1998	
White Paper on the Government's plans for Child Support Reforms published (paragraph 1.10)	July 1999	
Decision to undertake comprehensive business restructuring with a complete IT replacement (paragraphs 2.10–2.11)	June 2000	£606 million with financial benefits of £716 million, a net benefit of £110 million, with a net present value of £12 million (paragraph 2.12)
<i>The Department planned to introduce the new scheme by April 2002 and existing cases would transfer to the new scheme in April 2003 (paragraph 2.14)</i>		
Child Support, Pensions and Social Security Act 2000 enacted (paragraph 1.10)	July 2000	
The Department enters 10 year contract with EDS to supply new IT system for Agency (paragraph 2.9)	Sep 2000	Overall cash value £427 million (paragraph 2.15)
Doug Smith replaces Faith Boardman as Chief Executive of the Child Support Agency (paragraph 1.5)	September 2000	
Review by the Office of Government Commerce did not express much confidence that the implementation would be carried out to the full extent envisaged (paragraph 2.27)	April 2001	
Business case reviewed and re-approved following a restructure of the programme (paragraph 2.32)	September 2001	£653 million, including £393 million IT costs, and benefits to be £716 million, with a net present cost of £32 million (paragraph 2.32)
Secretary of State for Work and Pensions decided to defer the planned start for the new system until such time as the IT was operating effectively (paragraph 2.34)	March 2002	

Event	Date	Estimated costs
The Department agreed two contract change notes with EDS (paragraph 2.37)	December 2002	£456 million for the IT system, including a lump sum payment of £11 million to EDS for extra costs they had incurred and a £54 million pre-payment, to reduce the overall high financing costs (paragraph 2.37)
Revised estimate of the cost of delivering the reform programme produced (paragraph 2.36)	March 2003	£784 million and, with benefits of £585 million, a net cost of £199 million with a net present value of £71 million (paragraph 2.36)
New scheme went live with a number of known defects to CS2 that would cause the Agency difficulty in processing some cases (paragraph 2.40)	March 2003	
Independent review by FELD concluded that CS2 system could be made viable, but that stability and performance required significant improvement (paragraph 2.44)	October 2003	
Following a dry-run for the bulk migration, planned for November 2003, to transfer to CS2 existing cases processed on the old computer system and convert assessments to new rules calculations, bulk migration was postponed and remains postponed until at least 2007 (paragraph 2.45)	October 2003	
Updated business case produced (paragraph 2.47)	March 2004	£805 million including a cost of £14 million due to extending the investment to 2010 and the savings reduced to £512 million, with a shift from a net present value to a net present cost of £42 million (paragraph 2.62)
Stephen Geraghty replaces Doug Smith as Chief Executive of the Child Support Agency (paragraph 1.5)	April 2005	
Root and branch review of the Agency by Chief Executive (paragraphs 1.17–1.18)	Summer 2005	
Department for Work and Pensions and EDS realign IT contracts (paragraph 2.53)	August 2005	
Original Child Support Reform programme closed. Cost of implementing the Reforms up to this point exceed original lifetime budget, four years early (paragraph 2.58)	October 2005	£539 million spent to this date. Cost to 2010 on basis of realigned EDS contract estimated as £768 million of which £381 million will have been paid to EDS under contract (paragraph 2.58)
Secretary of State announces Operational Improvement Plan up to 2009 at a cost of £321 million, of which £120 million is additional investment (paragraph 1.18)	February 2006	
<i>Proposals on the options for the Child Support Agency by Sir David Henshaw expected (paragraph 1.17)</i>	<i>Summer 2006</i>	
<i>CS2 expected to be running as originally expected (see paragraph 2.56)</i>	<i>December 2007</i>	
<i>Operational Improvement Plan concludes with expected reduced backlog of cases, processing 80 per cent of cases within 12 weeks and getting more money to children through enforcement action (figure 4, page 12)</i>	<i>March 2009</i>	

PART ONE

An introduction to the Child Support Agency and the Child Support Reforms



The role of the Child Support Agency

1.1 The Child Support Agency (the Agency) is an executive agency of the Department for Work and Pensions (the Department). Established in 1993 it is responsible for implementing the 1991 and 1995 Child Support Acts and part of the Child Support, Pensions and Social Security Act 2000. Its main purpose is to ensure that non-resident parents meet their financial responsibilities towards their children. As part of this process the Agency:

- Calculates levels of maintenance to be paid by non-resident parents;
- Collects payments from non-resident parents and passes them on to the parents with care, or the Secretary of State where the parent with care is in receipt of Income Support or income-based Jobseeker's Allowance;
- Carries out work to ensure that non-resident parents comply with their maintenance obligations; and
- Amends calculations to reflect the changing circumstances of either parent.

1.2 Prior to the existence of the Agency, child maintenance was set and enforced by the courts. However, courts tended to make small awards, with inconsistent rulings in the absence of authoritative guidance. Moreover, enforcement of these court orders was poor. This led to a drain on the social security budget as lone parents increasingly had to turn to income related benefits to make up the shortfall in the costs of bringing up a child. The Child Support Act 1991 (and subsequent legislation) was intended to tackle these problems.

1.3 The Agency seeks to ensure that non-resident parents contribute financially to the welfare of their children and to provide a mechanism for the calculation of child maintenance between two parties. Although any parent with care can apply for adjudication from the Agency, when a parent with care makes a claim for income-related benefits, it is treated as a claim for child support maintenance.

1.4 The Agency has jurisdiction in relation to cases in which the child and person with care live in the UK, and the non-resident parent lives in the UK or is living abroad while working for a British employer.

Administration of the Child Support Agency

1.5 Since it was established, the Agency has had five Chief Executives and has been under the responsibility of seven Secretaries of State. During this period the Department for Work and Pensions and its predecessor the Department for Social Security has had five Permanent Secretaries (see Box 2 overleaf). The Agency currently employs over 10,000 (full time equivalent) staff. In 2004-2005 the net administration costs of the Agency totalled £326 million. Northern Ireland has its own Child Support Agency. The main Child Support Agency sites are Falkirk, Birkenhead, Hastings, Plymouth, Dudley and Belfast (operated by the Northern Ireland Child Support Agency to provide services for clients in the East of England).

BOX 2**History of Chief Executive and Secretaries of State responsibility for the Agency**

Chief Executives of the Child Support Agency:		Permanent Secretaries ¹ :		Secretaries of State:	
Ros Hepplewhite	(1993-1994)	Sir Michael Partridge KCB	(1988-1995)	Peter Lilley	(1992-1997)
Ann Chant	(1994-1997)	Dame Ann Bowtell DCB	(1995-1999)	Harriet Harman	(1997-1998)
Faith Boardman	(1997-2000)	Rachel Lomax	(1999-2002)	Alistair Darling	(1998-2001)
Doug Smith	(2000-2005)	Sir Richard Mottram KCB	(2002-2005)	Andrew Smith	(2002-2003)
Stephen Geraghty	(2005-	Leigh Lewis CB	(2005-	Alan Johnson	(2004)
				David Blunkett	(2005)
				John Hutton	(2005-

NOTE

¹ Department of Social Security from 1988 – June 2001. Department for Work and Pensions from June 2001 to present.

1.6 Linked to the six main sites are 25 smaller offices – known as satellite processing centres – dealing primarily with new applications and a number of local service bases supplying a face-to-face service. Each of the main sites has its own processing centres and local service bases. Each unit provides the full end to end service for new applications. The majority of the Agency's contact with parents with care and non-resident parents is by telephone. During 2005-06 the Agency received over five million calls.

1.7 The Agency has a series of roles to ensure that non-resident parents contribute financially towards their children. These are:

- An assessment of each application – including identifying and locating the non-resident parent;
- Calculating the maintenance payable by non-resident parents – involves confirming paternity, establishing the non-resident parents income or benefit status, determining the existence of children in the non-resident parent's current household and confirming levels of shared care;
- Maintaining the accuracy of maintenance assessments – after the initial assessment the Agency has responsibility to ensure that all the information provided to it is kept up to date, track changes and recalculate maintenance each time any of the information changes;

- Collecting money from non-resident parents, including setting up payment schedules, and paying this to the parent with care or the Secretary of State where the parent with care is in receipt of benefits; and
- Enforcing assessments – chasing missed payments and collecting debt which may have built up and pursuing non-compliant non-resident parents as far as necessary to achieve payment.

The Child Support Reforms

1.8 By 1998 it was clear that the Agency was not meeting key targets and was suffering from a large backlog of unprocessed cases, low compliance by non-resident parents and growing levels of debt owed to parents with care and the Secretary of State. On that basis it was recognised the child support system was failing to deliver regular maintenance and had become discredited.

1.9 Since the Agency was established applications for child support maintenance had been assessed against formulae that required Agency staff to obtain information about the personal circumstances of both parents. It involved gathering up to one hundred pieces of information about income, housing costs and other expenses from clients who may have been reluctant to provide this information. The complexity of this process contributed to significant levels of error in maintenance

assessments, which has led to the qualification of the Agency's Client Funds accounts each year since the Agency commenced business (see paragraph 4.21). Further, the basis of maintenance assessments was not transparent to customers often leading to disputes and long delays before maintenance was assessed and paid.

1.10 To deal with these difficulties, the Government set out plans for Child Support Reforms (the Reforms) in a White Paper published in July 1999. The Reforms, as subsequently set out in the Child Support, Pensions and Social Security Act 2000, were intended to address specifically:

- The difficulty in making and understanding the complex maintenance calculation;
- The lack of effective enforcement action to encourage non-compliant parents;
- The lack of engagement with parents; and
- The length of time it took to move from application to assessment to a flow of maintenance.

1.11 The Reforms were intended to make the system less administratively complex, thereby reducing the costs of the Agency, through introducing a simpler formula for the calculation of child maintenance that required less information to be provided by both parents (see Box 1). On average it was expected that assessments would be slightly lower following the Reforms, but that the simpler system would lead to quicker assessments and higher levels of compliance.

1.12 Assessments are now predominantly based on the income of the non-resident parent, similar to Child Support systems in other countries, such as the Australian Child Support Agency (see Box 3) and others around the world (see Appendix B). The Agency has so far failed to perform as effectively as its international counterparts, such as Australia and New Zealand, with higher average costs per case and lower rates of compliance. The Australian Child Support Agency however has greater access than the UK Agency to individual tax information that enables it to determine income and expenditure directly, without having to rely on the individuals concerned to provide this information. Taxation is also used to collect arrears from non-resident parents, reducing their opportunity to evade paying the maintenance due.

BOX 3

The Australian Child Support Agency model

The Australian Child Support Agency (CSA) was established in 1988 to administer the Child Support Scheme. In 2003-04 £928 million in child support payments were transferred from the non-resident parent to the parent with care at a cost of £109 million. This includes those cases where the Agency sets up the schedule but does not have responsibility for collecting money, around 64 per cent of the Australian Agency's caseload, equivalent to the UK Maintenance Direct system. It therefore costs the Agency £0.12 to collect each pound, less than a quarter the ratio of the UK Child Support Agency, although this reflects the larger average value of payments made in Australia. 1.3 million parents who use the CSA are approximately 95 per cent of the eligible separated population.

The formula for calculating the non-resident parent's liability is different to that in the UK. After deducting half the resident parent's excess income over average weekly earnings and making an allowance for living expenses and for the children living with the liable parent, a percentage of the liable parent's taxable remaining income is paid as support. The percentage varies between 18 and 36 per cent according to the number of children.

Parents register by telephone as customers and details are then checked through the taxation system. Child support arrears can also be transferred through taxes. If a parent with care is receiving family benefits those benefits may be reduced if child support payments are made to that parent.

In 52 per cent of cases money is transferred from the non-resident parent to the parent with care independently of the Agency. In the UK this is known as Maintenance Direct and is only being used in a small percentage of cases. No administration fee is charged when money is transferred independently of the Agency and they are much cheaper to manage than those where the Agency acts as a collection service, approximately one-fifth of the cost. In their first nine months with the Australian CSA parents are managed by New Clients stream. After that time cases can move to private collection where the payer parent has demonstrated full compliance. If private collect payers become non-compliant the payee parent can apply to have the case return for CSA collection. This happens in about seven to eight per cent of private collect cases per year.

Gross outstanding debt is currently AUS \$872.2 million in June 2005, which represents less than five per cent of child maintenance liabilities since Scheme inception in 1988.

1.13 The Reforms were introduced in the Agency in March 2003, a year later than expected, and included stronger powers aimed at improving the flow of maintenance and revised administrative arrangements aimed at securing better engagement with parents and a faster turnaround of applications.

1.14 As the Department's business case for the Reforms noted, the required change programme was an ambitious one. Successful delivery of the Reform objectives would be based on the implementation of a huge IT project combined with a wide range of business restructuring initiatives. Improvements in customer service levels would require a cultural shift within the Agency. All this would generate an immense training requirement, which would have to be met in tandem with the continuing provision of services to existing customers.

1.15 To support the reforms a new computer (CS2) and telephony system, to replace the existing computer system (CSCS), was designed and developed by a consortium of contractors led by Electronic Data Systems (EDS) on behalf of the Department as a Private Finance Initiative (PFI) contract. EDS was responsible for the technical design, development, technical testing, implementation and delivery of the CS2 system.

1.16 In the event delays in the installation and roll-out of the new computer and telephony systems and difficulties in business restructuring, have limited progress towards reducing error rates in maintenance calculations and improving service delivery. As a result, the Agency has, to date, not been able to realise the full benefits of the Reforms.

Purpose of this review

1.17 On 9 February 2006 the Secretary of State for Work and Pensions signalled a major overhaul of Child Support announcing that he had asked Sir David Henshaw to develop proposals for the future to provide the best possible arrangements for delivering child support. The proposal, due to be delivered to the Secretary of State in summer 2006, is expected to provide options for the longer term policy and delivery arrangements for the Agency. The Secretary of State told the House of Commons that the sheer scale of resource required to transform the Agency clearly demonstrates that in its current state it is not fit for purpose.

1.18 Alongside this review the Secretary of State announced that following an operational review of the Agency by the Chief Executive, a Child Support Agency Operational Improvement Plan, involving new investment of £120 million, has been launched to clear the outstanding new scheme applications that the Agency has, sort out operational problems and get much tougher on parents who do not meet their responsibilities (see Figure 4).

1.19 Against this background the National Audit Office examined the factors that have so far prevented the Agency from delivering the Reforms as intended. Our analysis of the barriers currently facing the Agency offers a basis from which future delivery options can be considered. We examined:

- How the introduction of the Child Support Reforms in 2003, including the new IT system, were implemented by reference to decisions that were made at key stages. This investigation also follows up the Work and Pensions Select Committee's⁴ recommendation that the National Audit Office should examine the background to the Agency's contract with EDS, the Agency's chosen IT supplier, including the Committee's concern that if EDS had repudiated the contract the reform programme would have stopped and the IT system would have collapsed (Part 2 of the report);
- The extent to which the benefits of the Reforms have been realised in processing applications for maintenance assessments (Part 3); and
- The Agency's ability to collect money from non-resident parents and transfer this to the parent with care or the Secretary of State (Part 4).

1.20 Our approach is set out at Appendix 3.

4 House of Commons Work and Pensions Committee second report of 2004-05, *The Performance of the Child Support Agency* (January 2004).



PART TWO

How the Agency managed the implementation of the Child Support Reforms



2.1 The implementation of the Child Support Reforms has impacted on every aspect of the way in which the Agency conducts its business. Although at the time the Reforms were announced the Agency was undergoing a programme of improvements in the way in which it interacted with customers, the change programme that followed the Reforms was vast and complex.

2.2 This part of the report examines how well these changes were implemented, including the commissioning of a major IT system for the administration of cases under the new simplified rules. It reviews the decisions made at key stages in the change programme and the development process. It also follows up the recommendation made by the Work and Pensions Select Committee that the National Audit Office should study the background to the Department's contract with Electronic Data Systems (EDS), including the Committee's concern that if EDS had repudiated the contract the reform programme would have stopped and the system would have collapsed.

The Agency had started an IT improvement programme before the introduction of the Reforms

2.3 In 1995-96 a review of the Child Support Agency's Information Systems Strategy recommended that a new system should be procured, to better support the business. When the Agency conducted a feasibility study in August 1996 it confirmed that this was possible and could be delivered within three years for an approximate cost of £70 million. Around this time the Agency's Board decided that the Agency should become part of the then Department of Social Security's newly developed Corporate IS/IT Strategy.

2.4 In September 1996 the Target 99 project was set up to take forward the first stage of defining the Agency's future business requirements for its replacement IT system, within the overall framework of the new Corporate IS/IT Strategy. From 1997 this work was taken forward as part of the Modern Service One project which had been set up to deliver an integrated front-end service to customers of the then Department of Social Security.

2.5 By July 1999 it was clear that the size and nature of the Modern Service One project was jeopardising overall delivery. The then Secretary of State agreed that the development of IT support needed for Child Support should be separated out to give increased focus and reduce risks around delivery. It was proposed that this new IT system would be created on the technical and hardware platforms that EDS was developing for the Department, creating a potential for compatibility with future development of the benefit systems. EDS provided a rough estimate of £94 million for this. The cost of enhancing the existing system, CSCS, was put at £45 million.

2.6 In July 1999, following publication of the White Paper *Children's Rights and Parents Responsibilities*, the Department handed the new IT system requirements back to the Agency. By this time EDS had already started work scoping the system on the basis of a High Level Business Requirement from the Modern Service One project.

2.7 Between July and September 1999 a revised High Level Business Requirement was written in conjunction with EDS, and it was expected that the new service would be ready by October 2001. The Agency's view was that it would be able to introduce the new scheme for new cases in 2001, run both systems in parallel for at least a year, and transfer existing cases to the new scheme in 2002.

2.8 In November 1999 the Agency commissioned an external review of the programme from Ernst and Young. In the light of their findings a task force was set up to identify ways of reducing risk to successful delivery, including a review of the implementation approach. Submissions to Ministers in December 1999 led to an agreement in January 2000 to move the launch of the new scheme to April 2002, based on plans that showed the new IT systems being available from December 2001.

2.9 The final version of the High Level Business Requirement, originally drafted for the Modern Service One project, was approved and used to evaluate EDS' technical and functional solution in February 2000 and in August a Business Allocation with the Affinity Consortium to build CS2 was agreed. This was the first business allocation under ACCORD, which was an overarching contract signed on 23 February 1999 under which IT services to the Department are provided by three groups

of IT suppliers. Under this contract EDS were given lead supplier responsibility to maintain, develop and operate the Department's existing IT systems up to August 2010. In August 2005, a contract realignment took place with EDS within the ACCORD framework (see paragraph 2.53).

Implementing the proposed Reforms prompted the CSA to restructure its entire operations and invest in a bespoke IT system

2.10 In June 2000, following the announcement of the Reforms, the Department completed a business case, agreed by Ministers, which evaluated three options for how the Agency might deliver the Reforms: partial upgrade of the existing IT system with minimal business restructuring; full upgrade of the existing IT system and comprehensive restructuring of the business; or comprehensive restructuring with complete IT replacement (**Box 4**).

BOX 4

Evaluation of the Options for introducing the Child Support Reforms

Option 1 – partial upgrade of the existing Child Support Computer System (CSCS) with minimal associated business restructuring – The Department's view was that this offered no realistic prospect of any major improvements in compliance or customer service.

Option 2 – comprehensive business restructuring with full upgrade of CSCS – The Department's evaluation was that this offered considerably more benefits than Option 1. However there was a major concern over the obsolescent nature of CSCS, with a considerable risk that future IT support for the system might prove problematic.

Option 3 – comprehensive business restructuring with complete IT replacement – The Department's recommendation, which Ministers accepted, was that this offered the best value for money means of implementing the Child Support Reforms because it would provide a step-change for better compliance and customer service levels and because the IT solution would provide a platform with the potential for wider utilisation across many parts of the Department.

2.11 The Department's recommendation, which Ministers accepted, was for a complete business restructuring and bespoke IT system (Option 3) which it considered offered the best value for money means of implementing the Reforms. This was because it would provide a step-change for the better compliance and customer service levels aspired to and offered an IT solution that would provide a platform with the potential for wider utilisation across many parts of the whole Department. The proposed business transformation, entailing significant organisational and cultural changes, and underpinned by an enhanced IT system, were expected to improve customer service and efficiency, in particular:

- Parents being able to get up to date, relevant, understandable information over the telephone;
- Increase of case⁵ and cash⁶ compliance from 68 per cent to 75 per cent;
- More accurate maintenance calculations within days of an application and payment arrangements in place within four to six weeks;
- At least twice as many parents with care on Income Support or Jobseekers Allowance getting maintenance paid from the non-resident parent; and
- £145 million additional benefit savings, where money is recovered on behalf of the Secretary of State, per annum from an Agency with 25 per cent less administrative costs.

2.12 The costs of delivering option 3 were assessed as £606 million and the financial benefits £716 million, a net benefit of £110 million (net present value £12 million⁷). The Department did not carry out a full costing of options 1 and 2 because they felt that these options would fail to meet the objectives of the Reforms regardless of cost and because such an exercise would be likely to jeopardise the IT development timescales. However a broad comparison by the Agency of the three options suggested that option 3 offered the highest net present value.

2.13 The delivery of the Reforms involved three major strands of change:

- A new IT system – to deliver the simplified calculation efficiently;
- A new IT infrastructure - on which the IT system would be based; and
- A new operating model – including restructuring of the way in which cases were handled, training staff and re-writing guidance for customers.

2.14 On the basis of the business case, Ministers signalled their agreement to proceed to contract for a new IT system and approved a comprehensive business restructuring. It was planned that the new scheme would be introduced by April 2002. Existing cases would transfer to the new scheme only when the Government was satisfied that the new systems were working well, planned for April 2003.

The Department contracted with EDS for the design, delivery and operation of an IT system to implement the reforms

2.15 In September 2000 a £427 million contract was awarded to EDS to provide the new IT system – CS2 – to underpin the Child Support Reforms up to 31 August 2010 (see Box 5 overleaf). This was the first Private Finance Initiative (PFI) business allocation under the Department's ACCORD overarching agreement.

5 Case compliance is a measure used to indicate the number of non-resident parents paying through the Agency's collection service as a proportion of those expected to pay money. This is not dependent on the non-resident parent paying regularly or indeed fully the amount that is due.

6 Cash compliance is defined as the total amount of maintenance received against the total amount charged by the collection Agency.

7 Net present value (NPV) of an option being appraised is the difference between its benefits and costs, measured in monetary terms and discounted to present value.

BOX 5**The intended functions of the CS2 system**

The design of the new CS2 system shifted the control of the business processes to an IT driven process rather than a system driven by Agency staff. Whereas the original CSCS system was used to assist in the calculation of assessments, the new system covers a much broader range of the Agency's business, including the integration of a telephony system and allocating case tasks as required.

The new CS2 system would:

- receive applications direct from clients and from Jobcentre Plus (via an interface between the two agencies) for Benefit Clients;
- facilitate tracking of the processing of cases;
- calculate maintenance payments once information has been entered onto the system; and
- administer and account for the collection and disbursement of maintenance payments (including debt management).

In addition, the system was intended to facilitate the processing of cases by:

- integrating telephone functions with the computer system;
- managing the flow of cases (e.g. automatically triggering action at appropriate times); and
- providing detailed management information on workloads.

2.16 To establish whether EDS were offering value for money, the Agency, in the absence of a Public Sector Comparator, commissioned Gartner, a leading technology benchmarking consultancy, to prepare an Externally Prepared Industry Comparator. This attempted to create a private sector comparison to establish what the CS2 development should cost. In their report in July 2000, Gartner confirmed that they broadly agreed EDS's resource estimates for design, software code writing and testing phases and the overall functional size of the development. They raised concerns about the low productivity rates proposed that resulted in EDS's proposal for the development component of total cost to be twice Gartner's estimate of what it should be. However, Gartner recognised that they could find only a limited number of developments of a similar size and complexity

against which they could benchmark the CS2 project and recommended that a "reasonable profit" clause should be included in the contract against the event that actual productivity proved to be better than EDS estimated. This recommendation was implemented but the relevant clause in the contract was never invoked.

2.17 A pre-contract review for the Department by PA Consulting in the same month confirmed that the Department would be paying higher than average development costs as EDS's estimates were based on productivity rates of approximately one third of the industry average rates, meaning that the Department could be paying up to three times as much for the development phase of the system by EDS rather than another supplier. But their view was that, together with the sizeable contingency factor in EDS's plans, this would help to ensure that the programme could be completed within the planned timescales and the higher cost could be offset if the resultant product was of high quality. This meant that the Department paid premium rates for the development phase of a system that was not ultimately delivered to the planned timescales and of high quality.

2.18 The overall assessment by PA Consulting was that the programme was by its very nature high risk. This was due primarily to the size, complexity and time-scales of the IT development. In their view the extent of the Agency's requirement would lead to an IT solution at the upper end of what was achievable, involving a team of 550 people, many of whom needed to be experienced in leading edge technologies. The coupling of the IT system with a wider change programme significantly increased the risks of the project. They concluded finally that no amount of risk mitigation could guarantee the success of the programme given the inherent risks of such a large and complex programme of work.

2.19 In July 2000 the Agency sought ministerial agreement to proceed to contract with EDS for the new IT system, at a point when the parties were close to agreement. The total cost of developing the system, subject to negotiations to agree a final price, was reported to be £225 million, including £107 million of financing costs.

2.20 Under the contract EDS was responsible for all aspects of the design, development, testing and implementation of the new system to meet the Agency's requirements set out in its High Level Business Requirement. The operation of PFI arrangements by the Agency and EDS meant that the detailed requirements for the system were not formally signed off at the outset of the contract. This had significant consequences later when the Agency and EDS could not agree the final costs of the system where agreement could not be reached on whether the system had been delivered as required (see 2.37). Identifying detailed requirements of the system was an iterative process between the two parties whereby lower level requirements were defined based on EDS's interpretation of the high-level business requirements throughout the design of the system.

2.21 The contract needs to be seen in the context of similar large and complex PFI arrangements of the time. During that period there was a strong trend towards developing very long contracts where payments from the customer to the supplier were weighted heavily towards the latter years of the contract, particularly after any development work was completed and the system implemented. In this way the supplier's initial investment is recouped through continuing operational and support charges for the system. This arrangement also typically yielded a substantial financing cost to the customer, in this case the Agency, in addition to the running costs of the new IT environment.

2.22 The Department prepared the contract on the basis of the following key principles:

- The IT system would not be accepted until services had proved to work in the live environment;
- The Department would have around eighteen months to gain confidence in the stability of the system before final acceptance;
- Assurance points would be used to measure progress and performance at key points, with the ultimate sanction of termination;
- No payment would be made until services were delivered effectively; and
- The payment and performance regime as a whole gave EDS a real incentive to deliver effective services.

2.23 However, even within the context of PFI contracts of the period, elements of this contract were not conducive to good governance, these being:

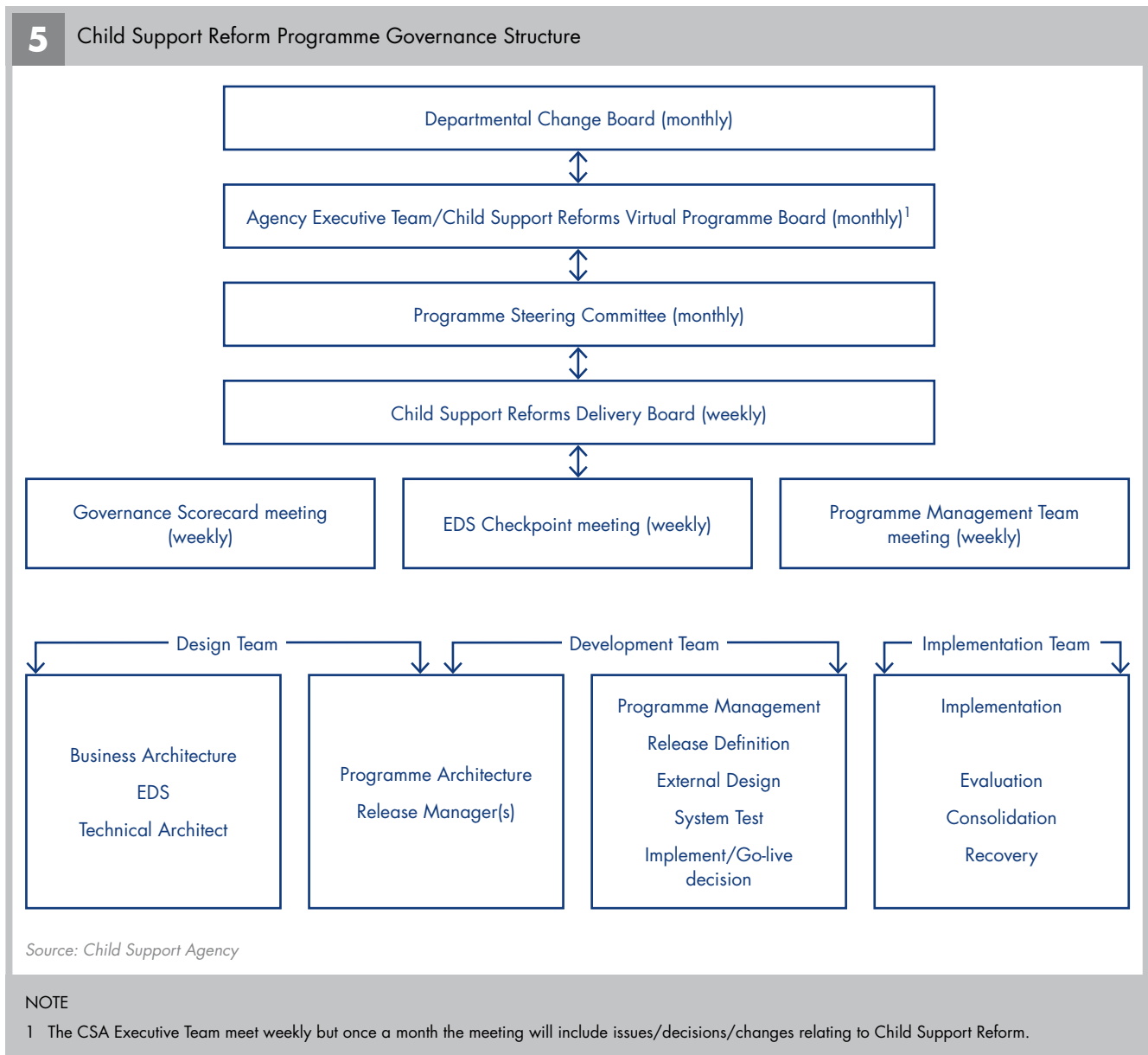
- **A lack of clarity about the functionality of the required system.** Taken together with the High Level Business Requirement that the Agency prepared in conjunction with EDS, there is a lack of completeness and clarity about the functionality and processes to be supplied and so far the Agency has requested 148 changes to the original requirement. There was also no agreed requirement for a management information system, beyond scoping.
- **Uncertainty of Agency responsibilities.** The contract fails to deal adequately with the Agency's responsibilities in respect of delivering the final systems, for example, the contract is specific as to which people from the supplier will work on the contract, but takes in no such obligations on the part of the Agency.
- **A lack of certainty about how changes will be managed.** The contract does not provide adequate guidance on how change will be managed. This has the impact that later Change Control Notes would have been difficult to interpret in the context of the overall contract.
- **The conditions of termination unclear.** The contract makes no mention of the method by which EDS might terminate its involvement. Although the Agency and Department had licence to use CS2 it had no provision to access the software code if EDS had decided to terminate the contract. If they had wanted to alter the programme in any way the Department would have had to exercise its buy-out options to buy the system to access the software coding.
- **High finance costs during development.** The high level of finance costs at 48 per cent of a total of £225 million.
- **Uncertainty over what constituted delivery.** The effective management of the project has been constrained by the absence of an agreed end to end plan for delivery of the system. In particular, there has not been, until recently, an agreed definition of what constitutes the end of the development of the system.

The governance structure for the implementation of the Reforms was established early and adhered to accepted governance principles

2.24 To mitigate the significant risks associated with poor project management of the implementation of the Reforms, the Agency set up a comprehensive governance structure, which in principle looked robust, based on a Programme Steering Committee and a common risk register with EDS. The programme management structure was built around the four major strands of the required changes (design, development, implementation and the

interface with other Government Departments) to support appropriate decision making and risk management (see Figure 5). At its height the Child Support Reform Programme employed in excess of 1,000 staff.

2.25 Responsibility for ensuring that the required outcomes were being delivered was placed with the Programme Steering Committee which met every month, taking reports from Agency staff and EDS on how the various risks were being managed. This aimed to ensure that project and business requirements were delivered to time, budget and quality. All decisions made by the Committee were clearly documented to give a complete audit trail.



External reviews were used at key stages to provide expert advice

2.26 The Agency's ability to manage effectively its side of the contract and to be an intelligent and informed customer was hampered by the decision to outsource in August 2000 to EDS most of the Department's and Agency's IT capability, previously provided in-house by the Information Technology Services Agency. This resulted in the Agency losing its source of independent IT advice at a critical time. As part of the governance process the programme was however subject to a number of internal reviews, including more than over 40 internal audit reviews. Seventy per cent of the assurance ratings in the internal audit reviews were in the nil or limited categories indicating significant risk or control weaknesses. None of the reviews provided full assurance. There were also a number of external reviews, including two Gateway reviews by the Office of Government Commerce (OGC), which expressed important reservations about how the Agency was delivering the Reforms. Wherever possible, the Department tried to follow the professional advice provided in these reviews and reports. In total the Agency has spent some £91 million on external advice (see Figure 6 on page 41).

2.27 External reviews included two Gateway Reviews by OGC in April 2001 and January 2002. However, the contract for CS2 was signed before the Gateway process was introduced in February 2001 therefore these reviews were at Gate 4, that is, to assess readiness for service rather than the appropriateness of the option that had been selected. Since January 2004, Projects are not allowed to enter the Gateway Review process if they are past the procurement strategy stage. The April 2001 review assessed the programme and concluded that the Agency could have some confidence that the new rules for child support will be implemented, through new business and IT systems, for new cases in April 2002, provided that the Reforms continued to carry Departmental priority. But the review expressed much less confidence that the implementation would be carried out to the full extent envisaged.

2.28 Despite some concerns over the delivery of the system in its entirety, there was no contingency plan in place to protect the business should EDS fail to deliver on time any of the contracted services. In July 2001 the Department stopped work on the contingency option of upgrading CSCS on the grounds that continuing would divert resources required to ensure that the new system was delivered on time. No alternative was ever developed. This was one of the significant factors which the

Department took into account when, in February 2004, it considered its options of continuing to work with EDS (see paragraph 2.46). Repudiation of the contract by the Department or EDS would have carried significant risks to both parties' reputation and counter claims for financial redress. The Department could have bought the system from EDS if the contract had been terminated. Nevertheless, the Work and Pensions Select Committee were right to be concerned that if EDS had repudiated the contract the reform programme would have stopped and the IT system would have collapsed.

The organisational restructuring associated with implementing the reforms represented a major training challenge and cultural shift

2.29 At the time of the legislative changes in 2000 the Agency had already undergone some business changes aimed at improving customer service, primarily through increasing the direct contact it had with its customers, either face-to-face or over the telephone. The introduction of the CS2 system represented a further major change in the way in which the Agency processed and managed applications, moving away from its functional approach, where cases were handed on from one member of staff at various stages of processing, to a caseworker approach (see Box 8, page 47).

2.30 By March 2002, in preparation for the planned start of the new scheme at the end of April 2002, the Agency had been substantially re-organised. It had re-structured its operations in readiness for the new system, establishing 'new client teams' in each of the business units to process all new claims using the new rules from March 2002 so that both parents with care and non-resident parents would have a consistent point of contact from the initial claim for maintenance through to first payment. The introduction of these 'new client teams' represented a major shift in the way Agency staff had been used to dealing with customers and made a clear distinction in the handling and experiences of old rules cases and those claims received under the new rules. Under the new structure, only once the Agency case worker has registered the first payment on the case, is it handed over to 'maintain compliance teams' for them to continue the management of case finances. Old scheme cases continue to have a number of Agency staff involved in the case depending on whether they are at the information gathering pre-assessment stage or the maintenance calculation stage (see appendix 1).

2.31 In preparation for the new system going live the Agency initially trained 400 staff and a further 7,000 during the first year of operating CS2. Jobcentre Plus needed to train a much higher number of staff, 58,000, as a large number of applications are initiated when parents with care apply for income related benefits, although this was necessarily less comprehensive than the training for Child Support Agency staff. Up to October 2005, training staff to use the CS2 system had cost the Agency over £30 million. However, only caseworkers were given training in the new system, staff overseeing teams of caseworkers were not routinely offered training on how to use the new system.

Despite improvements in programme management the IT system was not ready for the launch of the new scheme planned for April 2002

2.32 In September 2001 the business case was reviewed and re-approved following a restructure of the programme. This estimated total costs to be £653 million, including £393 million IT costs, and benefits to be £716 million, with a net present cost of £32 million.

2.33 A further Gateway 4 review by the OGC in January 2002 noted that since their last review in April 2001, a very great deal had been accomplished including a number of major re-planning exercises. The review concluded that, at what was a critical time in any project or programme, the planned implementation of the new scheme on 22 April 2002 was still a high risk. In the review team's opinion this placed a premium on holding to the latest implementation plan, accelerating some parts of it if feasible, and ensuring that the right business and IT skills and experience were continuously available to support the implementation and bedding-in period. Crucially, the review found that on the current plan, which was not yet complete, the timetables for the IT and user testing programmes ran well beyond 25 February 2002. The review team judged 25 February to be the latest date by which a formal implementation decision should be made to allow eight week lead-time to cover arrangements for a deferral and the laying of a Commencement Order.⁸

2.34 In the event, by March 2002 testing of CS2, in advance of the planned start of the new scheme at the end of April, was not completed satisfactorily. On that basis the Secretary of State decided to defer the planned start until such time as the IT was operating effectively.

2.35 A year elapsed while testing of CS2 was completed and changes made with the aim of bringing its availability and performance to an acceptable level. This included an extensive live trial. Cases continued to be processed using the Agency's existing system during this period although by this time business units had also established Data Cleanse Teams to prepare data on old scheme cases on CSCS for migration and conversion to the new arrangements.

Problems with the CS2 system soon had an adverse impact on the Agency's ability to deliver efficient services to customers

2.36 The new rules for assessment, collection and payment of Child Support and CS2 were introduced a year later than originally planned on 3 March 2003. By this time the estimated cost of delivering the reform programme had risen to £784 million and the benefits down to £585 million, a net cost of £199 million with a net present value of £71 million.

2.37 Prior to the introduction of the system, commercial discussions between the Agency and EDS concluded, over two years after the contract had been signed. They concluded with two contract change notes, signed on 31 December 2002, which resolved most of the outstanding issues with the original contract. The changes incorporated a new overall price of £456 million for the IT system, an increase from the original £427 million. The contract notes included the payment of a lump sum of £11 million to EDS for extra costs they had incurred and a £54 million pre-payment, to reduce the overall high financing costs and that would be recoverable in the event of termination of the contract. However, a number of key matters were left unresolved and were not effectively resolved until the settlement with EDS in August 2005 as part of the contract re-alignment (see paragraph 2.53). These however had implications for the delivery of the system and the Agency's ability to monitor performance.

⁸ A Commencement Order is a form of statutory instrument designed to bring into force the whole or part of an Act of Parliament.

These were:

- Agreement could not be reached on the provision of a management information system, an issue that currently prevents the Agency from being able to monitor cases adequately (see paragraph 3.2);
- Further work items, changes or disputed items due for delivery on which it had not been possible to agree or price; and
- EDS had not provided the evidence necessary to justify cost increases to cover the operation of the mainframe.

2.38 In preparation for the launch of the new child support scheme across the Agency in March 2003, the Agency requested OGC to conduct, in February 2003, a Peer Review or Health check⁹ of the programme as over a year had elapsed since the two previous OGC Gateway 4 reviews, the last in January 2002. Several Agency reviews with external resources had also been completed in the interim.

2.39 This Healthcheck however was carried out after the decision had been made by the Agency and agreed by Ministers, to use the system from 3 March 2003 for all new cases and apply the new rules of calculation. The OGC review team noted that options for later dates had also been considered before ministerial agreement had been reached and that, in strict programme terms a delay would have been the reviewers' preference, taking account of the late software release that would take place only a few days before the go-live date, with further software releases after this date. However the review team accepted that other drivers to the programme needed to be brought into account such as the risk of de-motivating the Agency's client teams, the risk of loss of momentum of the programme, the high confidence in the next software release, the significant cost of delay, and the relatively low number of cases to be implemented that allowed workarounds to be used. After considering this wider picture, the conclusion of the Healthcheck was that despite the increased risk, the March date was acceptable and assessed the programme as being at status Green.¹⁰

The new scheme went live with a number of known defects with the CS2 system

2.40 When the new scheme went live in March 2003 there remained a number of known defects that would cause the Agency difficulty in processing some cases. In January 2003 it was noted that there were still 322 critical defects outstanding for which fixes were scheduled, 270 before 3 March and 52 after that date. There were also 14 critical defects where no clear fixes existed or where mitigation plans were unsatisfactory.

2.41 Nevertheless all key stakeholders had confirmed that, having assessed the risks and implications, they were content to proceed to implementation on 3 March as planned. This was on the basis that there were manual workarounds for defects where no fixes were imminent, which would not significantly reduce the expected productivity of staff using the new system in the first months of operation. However, the impact of these defects soon became clear with productivity of staff using the new system being much lower than had been expected. Staff had to spend large amounts of their time navigating cases around known defects in order to prevent the system from causing the case to delay or get stuck (see paragraph 3.14). A large number of these manual workarounds still remain (see paragraph 2.57).

2.42 As the number of new applications processed under the new arrangements began to increase, a number of problems began to emerge that severely affected the level of confidence that staff had in the system, including:

- Staff experiencing significant access, availability and response time issues with CS2;
- The increasing numbers of system incidents, in particular where cases could not be progressed, rose to levels likely to result in serious customer complaints;
- The number of cases being processed to completion was lower than expected;

⁹ Some projects may seek additional assurances at other points in a project's lifecycle, and OGC Consultancy offer the HEALTHCHECK product as a means of meeting this demand. It is not an OGC Gateway Review and cannot be claimed as such, but should be seen as a complimentary or stand-alone activity providing benefit to the project.

¹⁰ Healthcheck reports do not normally contain a Red, Amber or Green status as it does not apply a standard test at a definable milestone in the project lifecycle. OGC only use this system for Gateway Reviews to give a clear and common measure of the overall status of projects: Red – To achieve success the project team should take action immediately; Amber – The project should go forward with actions on recommendations to be carried out before the next review of the project; and Green – The project is on target to succeed but might benefit from the uptake of recommendations.

- Management information produced by the CS2 system was not consistent with clerical records or statistics taken directly from the system, resulting in Agency managers being unable to control and monitor performance effectively; and
- Problems with the new telephony resulted in delays in customers having their calls answered, and in the abandonment and loss of calls (see paragraph 3.7).

The Agency is working closely with EDS to rectify known problems and deliver an effective service for customers by 2007

2.43 To address these difficulties, a programme was implemented across the Agency in May 2003, comprising a number of phases running through to December 2003. It focussed on improvements to the reliability of CS2 and to the confidence of staff working in the new scheme. In July 2003 an Agency initiative was introduced to establish a new approach with EDS, aimed at greater co-operation and closer working across all the work with the Department for Work and Pensions. The Child Support Reforms featured heavily in the discussions that took place to improve those relationships.

2.44 An independent review by the FELD Group¹¹ in October and November 2003, concluded that the CS2 system could be made viable, but that stability and performance required significant improvement. As a result, EDS prepared a plan of remedial work that would take six months. In January 2004, the Department commissioned the Gartner Group to review the robustness of EDS's plan, specifically focusing on their ability to deliver that plan and ensuring that there were sufficiently skilled resources across the Agency and in EDS to deliver it. That review confirmed the FELD Group's diagnosis and concluded that although the EDS plan was not without risk, it was achievable. It also warned, as the FELD report had noted, that there might still be hidden problems that could further de-stabilise the system.

2.45 In October 2003 a dry-run was carried out for the bulk migration planned for Spring 2004 to transfer to CS2 existing cases processed on the old computer system and convert assessments to new rules calculations. This confirmed the findings from the FELD review that pre-requisites in terms of system and business stability had not yet been met and revealed a small but significant number of errors rendering the exercise unsuccessful. On this basis bulk migration was postponed and remains postponed.

2.46 Against this background, on 3 February 2004 a senior group of Departmental managers met to consider the overall feasibility of the EDS remedial programme in the context of the Department's contractual rights and options. The meeting concluded that the Agency should work full heartedly with EDS to give their remedial programme the best chance of success. That decision was taken on the basis that, although the Department did not yet have full confidence in EDS's delivery plans, there was a high level of probability that system defects could be remedied to the point at which EDS could provide an adequate level of service to the Agency. EDS had made significant changes to their senior team and were committed to remedying the system defects at their own expense. Further, at that time there was no viable contingency option. Going forward, it was noted that one key determinant of success would be the commitment to work in full partnership with EDS at all levels as was already evident at the most senior levels in the programme. This would need to operate at all levels of both organisations.

2.47 In March 2004 the Agency produced an updated business case setting out options for delivering the remaining elements of the Reforms, that was, stabilisation of the new scheme, IT system and processes, migration of existing cases from the old computer system to the new one and conversion of existing cases from the old to the new scheme. The business case recognised that previous planning assumptions for migrating and converting cases were neither achievable nor desirable given the number of problems that the new IT system had brought.

11 The FELD Group is an IT consultancy based in the United States which EDS bought in January 2004.

2.48 It was proposed that the IT problems would be resolved by firstly applying fixes to resolve problems in the live CS2 system, particularly those that had caused cases to become stuck and then improving the overall architecture and stability of the system in general. Hand in hand with this, other business changes were introduced including:

- A programme of work to release those cases that could not be progressed due to known system problems;
- Staff familiarisation and training for each new software release;
- Revised procedures in the Agency's Business Units that would take account of any changes brought about by better functionality;
- The removal of manual workarounds; and
- Migration and conversion of all cases to the new rules once existing IT problems have been eliminated or at levels that would result in significantly less risk of an adverse impact on the Agency's business.

2.49 This business case also heralded a change to the Agency's approach to governance and control of the project, underpinned by a Governance Improvement Plan implemented in January 2004. The key changes included:

- **A more robust assurance process** – All future software releases to pass through the recognised assurance process. Since the introduction of CS2 the more significant software releases had been through the recognised assurance process, but smaller releases, maintenance releases and hot-fixes had not been subjected to the full assurance process. Up to March 2004 releases of telephony software had not had formal assurance processes applied to them;
- **More cautious planning** – In recognition that there had been too much optimistic planning in the past, a more cautious approach was advocated so that planning could be regarded as credible and realistic, particularly from an operations point of view; and
- **Improved links with operations** – Planning carried out more closely with operations' staff than had previously been the case.

2.50 In July 2004 the Programme Steering Committee noted that the business was moving towards a crisis, with increased levels of customer complaint. The limitations of management information were making it difficult to disaggregate what was causing the performance problems.

2.51 As part of our investigation we analysed how effectively the Department had, in managing the development of CS2, performed against recommendations of the Committee of Public Accounts¹² in 2000 aimed at improving the delivery of government IT-enabled projects. This identified a number of key failings, in particular the Department underestimated the scale and impact of the changes they wished to implement, there was a lack of clarity over the desired outcome of the IT system, no viable contingency option for the IT system was developed and the contract was complex and easy to misunderstand.

2.52 In 2004-2005 system releases to improve CS2 functionality went smoothly although by the end of that period it was acknowledged that there was still a long way to go to gain the system improvements needed to move the Agency forward. In this period CS2 gained security accreditation, which had lapsed in October 2003, as a result of improved audit trails and significant improvements in the control of sensitive cases. Further improvements were made in the control of incident management and the quality of management information. In June 2005 the Department's internal assurance service, in their annual assurance report to the Agency's audit committee, concluded that overall the Agency had increased its knowledge of how CS2 actually works which enables a more controlled response to be made to rectifying problem areas such as understanding the content of work queues and reducing backlogs.

2.53 From 15 August 2005, the Department's existing contracts with EDS were re-aligned into a single contract, which then had five years to run, under the programme known as TREDSS (Transformation of EDS Services). The objective was to simplify the complex structure of contracts inherited by the Department when it was created out of the former Department of Social Security and Department for Education and Employment. Using an industry standard model it brought together different historical arrangements to help the Department meet its business objectives. The services provided by EDS are split into towers, each running exclusively to the others. Each tower's performance is assessed individually and the services within a tower can be terminated by either party without the need to terminate the whole contract. The six towers and their associated products are:

- **Desktop Tower** – All common services including personal computers and associated parts;
- **Application Support Tower** – Support and maintenance for the Department's applications;

12 Committee of Public Accounts – first report 1999-2000 *Improving the Delivery of Government IT Projects* (HC65, 1999-2000).

- **Hosting Tower** – The provision of application services and output handling;
- **Application Development Tower** – The development of new applications;
- **Network Service Tower** – Addressed through a separate contact with BT effective from October 2005; and
- **SIAM Tower** – Service Integration and Management, involving help-desk support, invoice management, management information and monitoring of supplier performance.

2.54 This re-alignment ended a long running commercial dispute between EDS and the Agency over CS2. The expected benefits of these new arrangements include the provision of standard IT services at market competitive prices, a clear set of service standards for EDS and an ability to compare processes and prices with other organisations.

2.55 The Agency and EDS have learned valuable lessons about the need to redesign and simplify business processes as an integral part of IT projects. Some of the shortcomings in the functionality of the CS2 system were due to the complexity of the business processes to be supported by the new system and the quality of the data to be transferred to it and processed by it.

BOX 6

Assessment of performance against previous Committee of Public Accounts Recommendations (2000) on improving the delivery of government IT-enabled projects

Recommendation

Departments should ensure that they analyse and understand fully the implications of the introduction of new IT systems for their businesses and customers

Departments must consider carefully the scale and complexity of projects and assess whether they are achievable

Delays in implementing projects place them at risk of being overtaken by technological change

The project specification must take into account the business needs of the organisation and the requirements of users

Senior management has a crucial role to play in championing the successful development of IT systems

It is vital that departments pay attention to the management of risks and have contingency plans in case projects are not implemented as planned

Relations between the departments and the supplier will have a crucial effect on the success of the project

Contracts between departments and suppliers must be clearly set out

Sufficient time and resources should be spent on ensuring that staff know how to use the system

Performance against previous recommendations

Despite a detailed analysis, the Department underestimated the scale and impact of the changes they wished to implement

The Agency were warned by PA Consulting that their recruitment for a large complex IT system in the planned timetable was at the upper end of what was achievable

There were delays but there was no evidence of problems caused by advances in technology

There was a lack of clarity over the desired outcome of the IT system

There is evidence of a substantial senior management input to the development of CS2

The Agency set up an appropriate structure to manage risks but there were some governance failures. No viable contingency plan was developed

There was a commitment at senior levels within the Agency and EDS to work in full partnership but there was a strong tendency further down the organisations to operate at arm's length

The contract fails to deal adequately with the Agency's responsibilities in respect of delivering the final systems and does not provide adequate guidance on how change will be managed. The contract also makes no mention of the method by which EDS might terminate its involvement.

Staff were trained to use the new system but training was not given to team leaders (see paragraph 2.31)

2.56 A substantial amount of work has been undertaken to resolve defects in CS2 since it went live in 2003. These have stabilised the system to some extent. Despite this approximately 600 manual workarounds still exist and a large number of cases are experiencing technical problems. A considerable amount of further work is required to bring the system up to the level that effectively supports the Agency's business. To achieve this, the Agency has agreed a prioritised programme of work with EDS to rectify some of the 500 remaining problems and to support other changes in the Operational Improvement Plan period 2006 to 2009. The Agency now does not expect the new CS2 system to operate as originally expected until the end of 2007.

2.57 Overall the Agency still faces significant challenges to deliver the levels of service aspired to. At June 2005, it was reported that none of the Secretary of State's targets were being met. CS2 has continued to seriously under-

perform necessitating over 600 workarounds. Customers continue to experience poor levels of service and there are still significant backlogs of work, stuck cases, off-line cases and manual payments.

The cost of the Reforms are significant and include more than the procurement of the new IT system

2.58 By October 2005, when the reform programme was closed, the Agency had spent £539 million on implementing the Reforms (see Figure 6). This included payments of £152 million to EDS, part of the total realigned contract costs of £381 million up to August 2010. Implementation of the Agency's Operational Improvement Plan, announced in February 2006 (see Figure 4), which includes some funding to support

6 Actual resource costs of the Child Support Reforms (£million¹)

Cost element	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 ²	Total spend to date	Expected total spend by 2010 ³
CS2 costs (payments to EDS)	0	0	0	19	48	53	33	152	381
Other IT related costs	0	5	7	8	14	14	8	56	
Implementation costs									
External expertise	0	20	18	28	16	6	2	91	
Programme management	1	1	2	1	1	2	0.1	9	
Training	0	0.4	5	11	8	4	2	30	
Data cleansing, migration and conversion	0	2	7	7	4	0	0	19	
Support areas	1	3	1	1	0.4	0.1	0	6	
Client management and communications	0	1	6	2	1	0.2	0.1	10	
Cost of delay to frontline business units	0	0	0	27	8	0	0	35	
Other (e.g. accommodation and relocation costs)	4	16	25	30	30	18	7	130	
Total	6	48	72	135	128	98	52	539	768

Source: Child Support Agency

NOTES

- 1 Figures rounded to the nearest million or 100,000 where under 1 million.
- 2 Up to October 2005 when the original Child Support Reform programme office was closed.
- 3 Does not include the future costs associated with managing the contract with EDS.

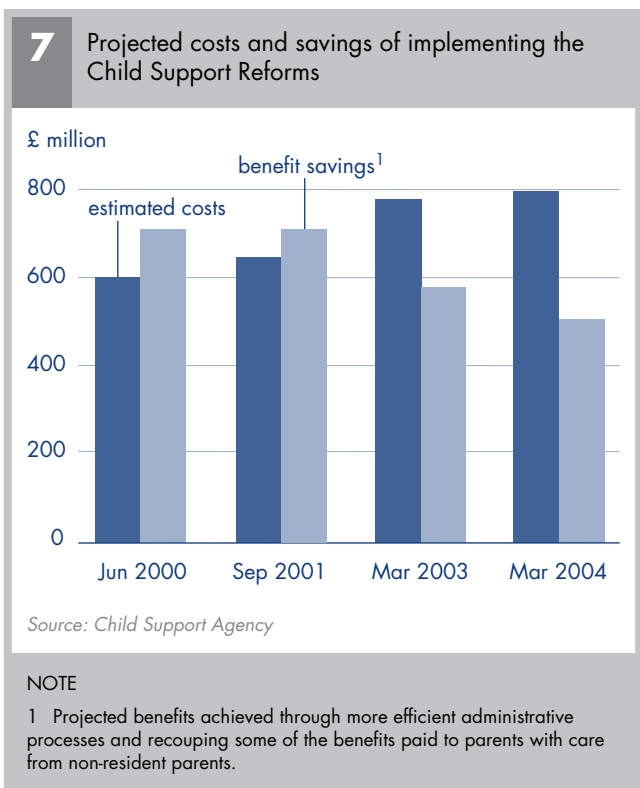
further improvements to the Agency's business not originally planned for in the Reforms, will cost an anticipated £321 million up to April 2009. Over a third of this, £120 million, will be additional finances with the remainder being made up of some of the money saved through the realigned contract with EDS (£62.5 million) and savings from elsewhere in the Agency (£138.5 million). This excludes any further investment following the proposals by Sir David Henshaw due Summer 2006.

2.59 The Agency has already paid £152 million for the design and implementation of CS2, around a third of the original £456 million anticipated contract cost of CS2 up to 2010. Due to the complexity of the contract, and the lack of an overall agreement on the requirements of the system, the interpretation of requests for change during the development stages resulted in a disputed £200 million additional costs to the original contract, increasing the potential contract cost to £656 million. Following lengthy negotiations the Agency agreed to make an additional payment of £30 million for 110 changes to the system which represented changes from the original contract arrangement. The settlement was incorporated into the realigned contract with EDS from August 2005 which the Department estimates represents an overall saving of £65 million against projected Agency IT spend to 2010, at £381 million. Future work to enhance the CS2 system as part of the Operational Improvement Plan will require significant investment.

2.60 When the option to restructure the business and commission a new IT system was taken the estimated total cost over 10 years was £606 million with projected benefits of around £716 million, achieved through more efficient administrative processes and recouping some of the benefits paid to parents with care from non-resident parents (see Figure 7). At this point the Agency projected savings of £110 million as a result of the changes to the business. However, revisions to the costs of the IT system during the development phase, including the various contract changes increased the costs of the programme and reduced the projected savings significantly. In March 2004 the estimated cost of the Reform programme had increased to £805 million including a cost of £14 million due to extending the investment to 2010 and the savings reduced to £512 million, with a shift from a net present value to

a net present cost of £42 million. The reduction to the projected savings were as a direct result of the delays of implementation and the failure of the system, amounting to increased Income Support payments of £95 million, where the expected increase in non-resident parent compliance has not been realised, and a loss of £109 million in administrative savings as a result of the higher number of staff being maintained as a result of the failings and delays.

2.61 The costs to the Agency of the delays to the implementation of CS2, the additional resources required to process new cases and the continued operation of the CSCS system for longer than expected have, since 2002 cost an estimated £86 million. Continuing to use CSCS cost the Agency £19 million in 2003-04, £14 million in 2004-05 and £4 million up to August 2005 when EDS agreed to provide the system for free. Up to August 2005 this cost had been borne by the Agency, however, as part of the settlement EDS agreed not to charge the Agency for this system until 2008. If CSCS is required after 1 April 2008, the Agency would have to renegotiate this arrangement with EDS to establish who would meet the additional costs of extending the use of the system further.





PART THREE

The impact of implementing the Reforms on the Agency's ability to process Child Maintenance applications



3.1 The implementation of simplified rules for the assessment of maintenance under the Reforms, the modernisation of operational processes and the introduction of the CS2 system were all expected to result in more accurate and timely maintenance assessments and improve compliance with maintenance obligations. Due to difficulties experienced with the introduction of the new IT system and associated business changes as detailed in Part 2, the Agency is now operating two systems to administer and manage cases in addition to an offline ‘manual’ process. So far the Agency has failed to achieve the expected improvements in timeliness and efficiency.

3.2 Poor management information continues to make it difficult for the Agency to calculate the total number of cases it is dealing with across its two systems. It also struggles to ascertain how close some of these cases are to being cleared, either through reaching a maintenance calculation or closure. However, a continuing initiative to improve the Agency’s management information, following a recommendation from the Department for Work and Pensions Select Committee, is starting to provide more reliable figures of the current case load (see Box 7).

3.3 Once an application for maintenance has been made, the Agency must gather all necessary information from both the parent with care and non-resident parent in order for it to make a maintenance decision. This part of the report examines how well the Agency meets this responsibility and examines its current performance against key targets. It compares the Agency’s performance

on new scheme cases against that of old scheme work managed using the CSCS system. Once the Agency has made a maintenance decision it must then ensure that non-resident parents comply with this. We examine this part of the Agency’s work in Part 4.

BOX 7

Management Information Improvement Project

In its January 2005 report¹ the Department for Work and Pensions Select Committee noted that a lack of management information available for new scheme applications meant that meaningful performance analysis was impossible against the quarterly reports on old scheme cases.

An independent review of the Agency’s management information, conducted by PA Consulting, concluded that the existing service for management information would never be fully effective. In collaboration with the Department for Work and Pensions Information Directorate the Agency has set up the Management Information Improvement Project to develop more robust information. The project aim is to obtain and convert management data produced by the CS2 system for further analysis. Information is now published quarterly, as a National Statistics accredited publication.

Since April 2006, management information has been available back to November 1995 in some areas, and work is ongoing to build on this improvement. Information available at local level however remains poor.

NOTE

¹ House of Commons Work and Pensions Select Committee Second Report 2004-05 (HC44-1) The Performance of the Child Support Agency.

A new operating model was introduced to support the new IT system and processes

3.4 The majority of the applications received by the Agency, around 70 per cent, are received from Jobcentre Plus when the parent with care makes a claim for income related benefits, such as Income Support or Jobseeker's Allowance, which under the new scheme, is treated as a claim for child support maintenance. If they wish to end the claim for maintenance a parent with care may only avoid a financial penalty when they have cause to fear harm or distress if the claim continues. Over two thirds of the 840,000 new scheme applications received so far have come through Jobcentre Plus. In these circumstances any money recovered from the non-resident parent is recovered by the Secretary of State, although for new scheme cases, parents with care are now entitled to the 'Child Maintenance Premium'. Under this rule, up to £10 a week of the maintenance paid is received in addition to Income Support. The Agency also receives private cases from individuals and both parents with care and non-resident parents, where the Agency is asked to calculate and collect the maintenance due.

3.5 The processing of new cases under new rules started in March 2003. This was to be followed by the transfer and conversion of existing cases from the old CSCS system, expected to be within 12 months, once Ministers were confident that the system was working well. The conversion of these cases from the old scheme assessments to the new was intended to ensure fairness and equity for all parents with care and non-resident parents. Problems with the functionality of the new CS2 system and the underlying data means that the Agency has not yet been able to transfer cases from the existing CSCS system as expected. It is not clear when the Agency will be able to convert all existing cases to the new system but there is now an expectation that the old CSCS system will operate until at least 2008. The recent review by the Chief Executive has identified significant issues with the data held on the old computer system, such as inconsistencies between clerical records and those on the system, and made it clear that conversion of these cases to new rules would carry substantial risks and be costly and complex. Agency customers with assessments still calculated under the old rules have yet to benefit from the simplified calculations or the Child Maintenance Premium for those parents with care on benefits, and the Agency now has to

operate the two systems, and associated rules, in parallel. The Agency Operational Plan up to 2009 does not include bulk migration and conversion of old cases, which is being considered as part of Sir David Henshaw's proposals for future options.

3.6 New applications are currently routed to new client teams who confirm personal details including parentage, gather all the information required to complete a maintenance calculation, make that calculation, set up a payment schedule, determine the method of payment and then retain the case until the first payment is received (see Figure 9 on page 48). Once a payment has been received the case becomes the responsibility of the 'maintain compliance' teams. These teams are all based in the main centres and deal with all the change of circumstances and missed payments. Essentially these teams look after the case over its life time, for example until the qualifying children reach age 16, once the initial calculation has been made. Enforcement teams, responsible for collecting monies owed, are also located within each of the main centres, although they are managed separately by a national enforcement directorate (see paragraph 4.23, page 65).

3.7 The current caseworker model means that a caseworker has responsibility for tasks on individual cases. When customers make contact with the Agency they are routed to the caseworker, or shadow caseworker where they are not available, to help them. However, where caseworkers leave or move around the Agency, or a case has had more than one person working on the case, the automated telephony system can struggle to identify and route the call as necessary. This can mean that customers can be passed around the system to find their caseworker, some may even get disconnected. During 2005-06 the Agency received 5.3 million customer calls, 82 per cent of which were answered by the Agency (see Figure 8 on page 27). However not all the attempted calls are available to staff to answer, for example where some calls experience system faults and fail to connect and others are abandoned or lost whilst customers are using 'touch-tone' elements of the system to reach the appropriate caseworker. In 2005-06, 423,000 calls (nine per cent) were abandoned whilst customers were waiting to speak to a member of staff. Calls to the Agency are now being answered more quickly, with calls relating to CS2 cases being answered a minute faster this year, after 1.21 minutes, compared to 2.29 minutes last year.¹³

13 This includes the time the caller spends navigating the automated element of the system.

3.8 Currently only half of the Agency's staff (4,500) are deployed on direct case progression work, with many involved in the administration of complaints, checking accuracy, training and manually gathering management information. To redirect staff to casework the Agency is now embarking on further restructuring of the way in which cases and customers are managed, moving away from the single caseworker approach to a structure based

on the life cycle of a case (see Box 8). Client teams, supporting new applications, will be split into different specialisms, typically determined by the employment status of the non-resident parent, for example those in receipt of benefits, employed or self-employed. The Agency's aim is to develop expert knowledge of the types of issues that affect such cases so that they can process cases more quickly and deal with problems.

8 Outcome of telephone calls received by the Agency (000s)

	Apr 02 – Mar 03		Apr 03 – Mar 04		Apr 04 – Mar 05		Apr 05 – Mar 06	
	Volume	Per cent ¹	Volume	Per cent ¹	Volume	Per cent ¹	Volume	Per cent ¹
Attempted calls	4,145		6,051		5,738		5,352	
Calls with outcome recorded	4,100	100	5,906	100	5,689	100	5,310	100
System fault:								
Busy/engaged tone	–		498	8	126	2	50	1
Call ineffective	–		355	6	210	4	134	3
Abandoned during touch tone	–		362	6	320	6	317	6
Calls available for staff to answer	3,649	89	4,691	80	5,034	88	4,819	90
<i>of which</i>								
Calls answered	3,121		3,417		4,240		4,396	
Abandoned in queue waiting for staff	528		1,274		794		423	

Source: Child Support Agency

NOTE

1 Of those calls available for staff to answer.

BOX 8

Proposed changes to the structure of the Agency

Existing structure

New client teams – caseworkers responsible for processing a number of cases through to first payment regardless of the nature of the application

Maintain compliance teams – responsible for the management of a number of cases once the assessment has been made

Enforcement teams – responsible for recovering money

Proposed new structure (from February 2006)

New client support teams – divided into specialist teams based primarily on the employment status of the non-resident parent

Senior caseworkers – working on complex/linked/high risk cases

Client service teams – to manage case maintenance including change of circumstances and deal with enquiries once an assessment has been made

Debt Enforcement teams – deal with non-compliance and take action when payments are missed

Legal Enforcement teams – tracing and recovering debt from non-resident parents trying to avoid responsibilities

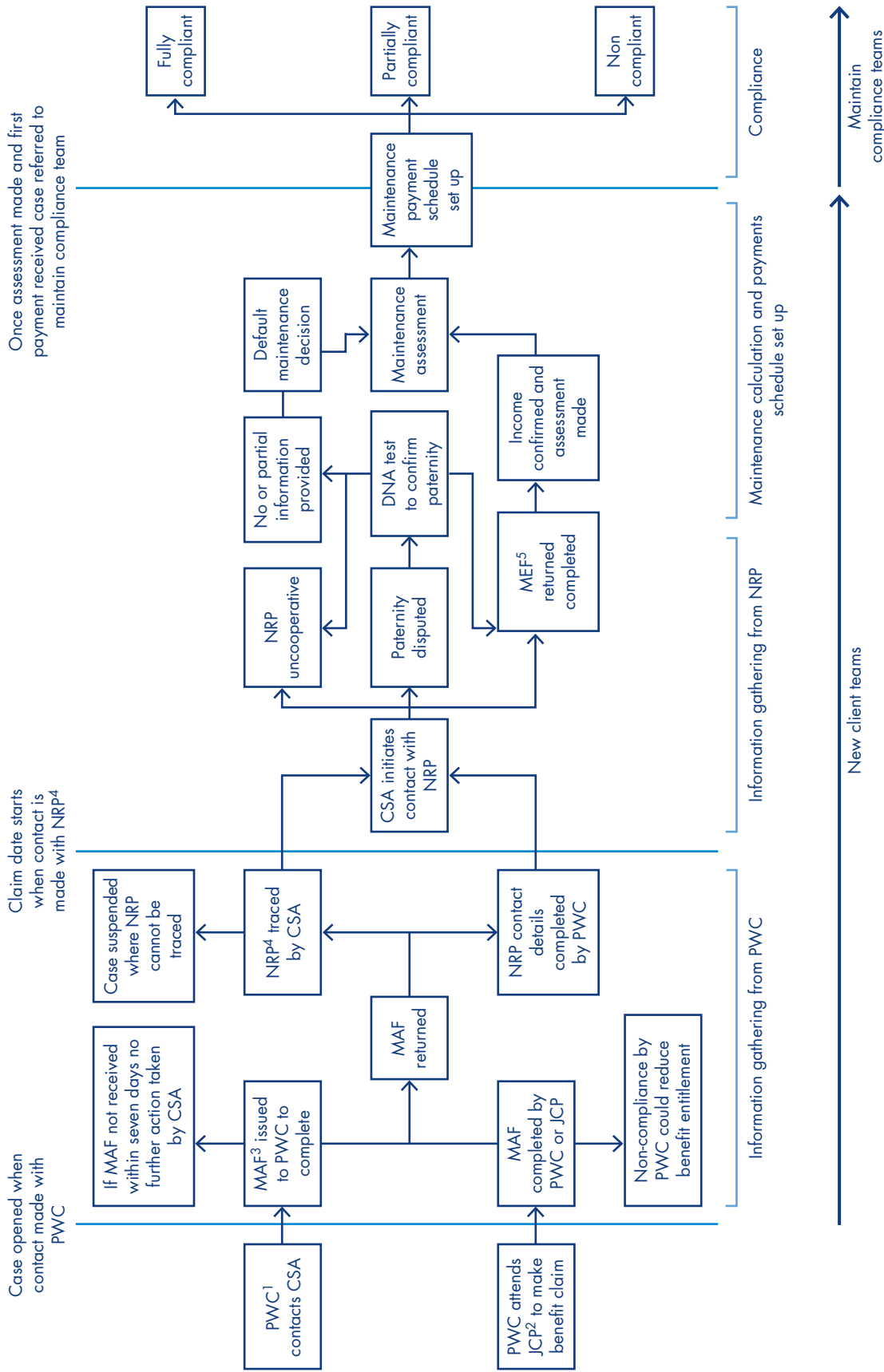
Specialist teams where:

Non-resident parent in receipt of benefit

Non-resident parent employed

Non-resident parent self-employed

9 Child maintenance application processing



Source: National Audit Office

NOTES

- 1 PWC – Parent with Care
- 2 JCP – Jobcentre Plus
- 3 MAF – Maintenance Application Form
- 4 NRP – Non-resident Parent
- 5 MEF – Maintenance Enquiry Form

3.9 The Agency expects that restructuring will enable it to redeploy 1,700 staff over the next three years into case progression work. In addition, the Agency is increasing by around 1,000 the number of staff it has over the next year. The Agency expects around 80 per cent of these are likely to be transferred from other parts of the Department for Work and Pensions, in particular, Jobcentre Plus and The Pension Service, and the remaining 20 per cent recruited externally, although this is currently being assessed.

The majority of active cases have not yet benefited from the simpler calculation introduced in March 2003

3.10 At March 2006 the Agency had around 1.5 million live maintenance cases, including those cases where an assessment has been made, those that have been nil assessed¹⁴ and those where work is still outstanding. Three years after the introduction of the new simplified rules the majority, (923,000 cases or 61 per cent) of all cases are administered under the old child support scheme of which 630,000 use the original CSCS system, a system that was being replaced due to it being complicated and often inaccurate (see **Figure 10**). Around 322,000 old rules cases have so far transferred to the new IT system, where the case has a link, either through the parent with care or non-resident parent, with a new case received after March 2003. Where cases have migrated to the new system the old rules for maintenance assessments usually continue to apply, these cases are known as transitional cases. This can cause difficulties where the new CS2 system does not recognise the calculations and/or dates relating to the case and may cause an existing well managed case to now become stuck.

3.11 The Agency had always known that there would be a range of cases within the existing scheme whose assessment would be affected because they link directly to a new application. This can be for example, where a parent with care who already has an assessment for one child makes an application for another child relating to another non-resident parent who may be the parent with care or non-resident parent in a further case. In these circumstances there is a legal requirement to re-assess the existing case to reflect the provisions of the new scheme. In some cases, one new application can have links to several other cases. The Agency found one case that had 58 linked cases, all of which would have to be migrated to the new CS2 system, some of which may then have new rules applied to them.

10 Status of case load by qualifying scheme – March 2006 (000s)

	Old scheme	New scheme	Total
Pre-assessed ¹	66	267 ⁵	333
Nil assessed ²	438	45	483
Interim Maintenance Assessment ³	29	Not applicable	29
Maintenance Liability ⁴	391	312	703
Total	923	596	1,519,000

Source: Child Support Agency

NOTES

- 1 The number of cases that are currently being assessed.
- 2 Where the non-resident parent, based on the figures provided does not have sufficient funds for an assessment to be made.
- 3 Where a calculation has been made based on unconfirmed data where the NRP has not provided all necessary figures.
- 4 Where an assessment has been calculated and a schedule for payment has been set up.
- 5 Includes 29,000 cases where the maintenance schedule has not yet been set up and the case has therefore not yet cleared.

¹⁴ Nil assessed is where the CSA has established that the non-resident parent is currently not liable to pay any maintenance but may be liable in the future if their circumstances change. This is commonly where the non-resident parent is on a low income or not working and is not in receipt of benefits.

3.12 Before the new system was designed, the Agency's assumption was that around 12 per cent of new applications would involve some link back to the existing system which would draw an existing case into the new system and scheme. During subsequent planning it was recognised that new applications would trigger many more links to existing cases, approximately 48 per cent. Around 322,000 cases have so far migrated to CS2 with about 15 per cent of all new scheme applications causing linked cases to require early conversion. At present there are around 89,000 of these cases, of which 41,000 have so far been converted. The Agency continues to have small specialist transitional teams in place to process those cases which fail to migrate successfully to the new system and is setting up teams to manage cases requiring early conversion to new rules.

3.13 Since the introduction of the new rules in March 2003, the Agency has received over 936,000 applications. During 2005-06 the Agency received on average 27,000 applications each month. Around a third of current live cases qualify for new scheme rules and are expected to be managed through the new CS2 system.

A large number of new cases are getting 'stuck' due to IT failures

3.14 An estimated 36,000 new scheme applications are currently prevented from progressing to assessment due to IT failures and are categorised as stuck. A large number of the cases currently stuck can be progressed with manual intervention by the Agency. Up to September 2005, 19,000 of these cases were being progressed clerically, outside of the CS2 system. When the CS2 system was first introduced the Agency had anticipated that some difficult or complex cases may be initially unsuitable for the new system and these would initially have to be processed clerically. However, the scale of the technical difficulties has been much greater than anticipated, and a number of specific teams have been set up to manage these cases

clerically. As more defects with the system are investigated it is likely that the number of cases stuck will increase. The Agency is working closely with EDS to rectify the problems that are causing these cases to become stuck and new software releases are expected during 2006 that may enable some stuck cases to progress using CS2. The number of cases being progressed clerically however is increasing by an average of 1,000 cases a month. The Agency now estimates that almost 700 staff will be needed to support the management of clerical casework by June 2006.

3.15 Not all stuck cases are managed clerically. Until recently, only those cases where the applicant of a stuck case made a complaint, and complained at the right level, for example through their MP, and for long enough (see paragraph 3.40), would the case be removed from the system and progressed clerically. Where cases are administered clerically all associated linked cases, even those that are being well managed and administered on both CSCS and CS2, must also be converted to a clerical case as the calculation will take account of all other payments and qualifying children involved in all other cases. The Agency does not have reliable management information on the outcomes of these cases, the time taken to process them and the accuracy of the cases. Local sites we visited told us that cases processed clerically are performing better in terms of the accuracy of the assessment, compliance of the non-resident parent and the cash received against the maintenance assessment than those administered through CS2.

3.16 The Agency does not want all stuck cases to become clerical cases as there is currently no method for getting cases back onto the CS2 system once they have been taken out. The Agency announced in February that it intends to seek additional support from the private sector in maintaining clerical cases until they can be re-established on CS2.

The Agency has a significant backlog of cases

3.17 Around 22 per cent (333,000) of the total current caseload have not yet progressed to a point where they can be cleared, representing the Agency's current backlog of work. One in four of all new scheme applications, received since March 2003, have not yet been cleared. Only where voluntary payments are made by the non-resident parent will the parent with care receive maintenance whilst the case is processed. Delays in processing may also impact on the non-resident parent's ability to pay as debt on the application builds up.

3.18 Almost half of all live new scheme cases have not yet progressed to a point where they can be cleared. The information available on these cases does not enable the Agency to identify how many of these have had work carried out on them, even though at this stage they have not yet reached a maintenance decision. Our review of 20 cases found that documentation on cases was often not sufficient to enable us to establish what stage the case was at or what decisions had been made on the case.

3.19 Delays can be caused by a number of factors (see Box 9). The cases we reviewed showed that responsibility for the delays can be attributed to parents with care, non-resident parents and the Agency. At the time of the application, applicants are often involved in complicated emotional, financial and legal relationships. The Agency is reliant on these applicants to provide full and accurate information in order to make an assessment during this difficult time. The Agency is now reviewing its standard letters and communications to help customers to understand what is happening with their cases and what more they can do to support the assessment process.

BOX 9

Examples of delays to cases

Poor administration by the Agency

An application was made by a parent with care. Both parties complied with requests for information and contacted the Agency regularly with regard to the status of the case. Despite this it took 11 months for a maintenance assessment to be calculated by the Agency. Delays were caused by several periods of inactivity by the Agency and, after nine months, the case became stuck due to technical issues. After a further two months inactivity, a new case was opened. A maintenance calculation was made shortly thereafter.

Parent with care non co-operation

A parent with care in receipt of benefit was requested to complete a maintenance application form in respect of her qualifying children by two separate partners. A Good Cause decision, not to claim maintenance from one non-resident parent, was made due to his violent behaviour towards the parent with care. However, the parent with care was put on reduced benefit for refusing to complete an application relating to the other non-resident parent. The case was closed after seven months when the parent with care was back living with the non-resident parent who she had claimed had been violent. Almost a year later a new case was opened when the parent with care applied for benefits. The parent with care again refused to co-operate and was put on reduced benefit. A further nine months passed until the parent with care agreed to complete a maintenance application and full benefits were reinstated.

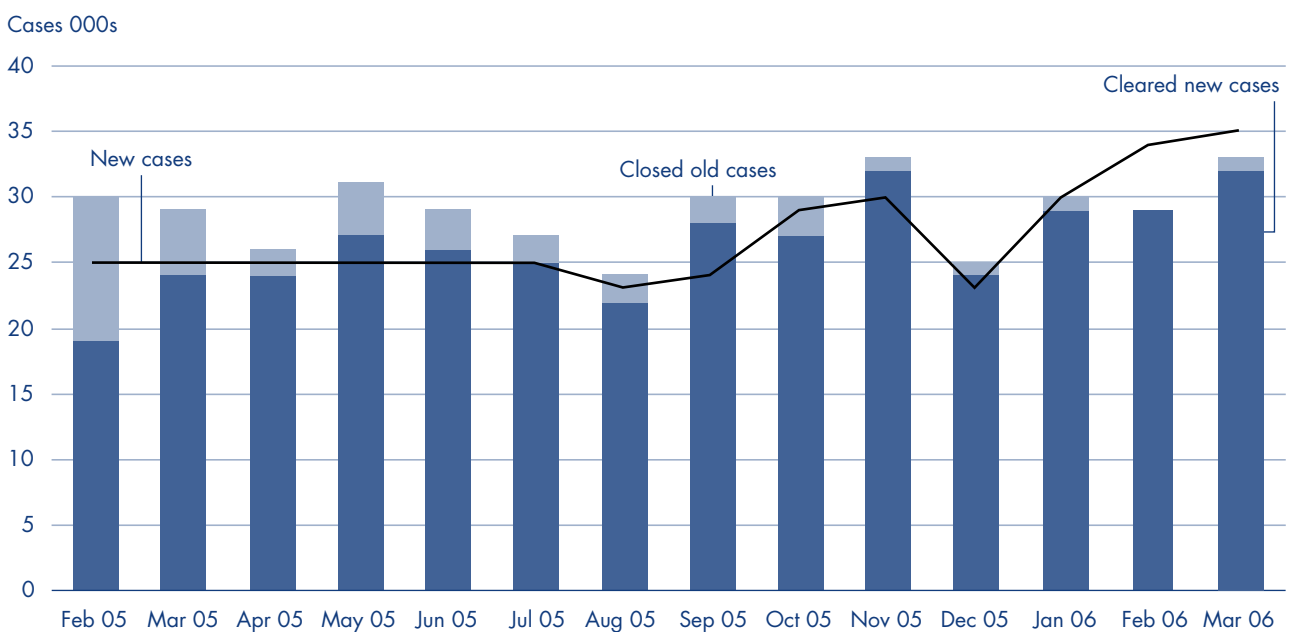
Non-resident parent non co-operation

A parent with care in receipt of benefit was requested to complete a maintenance application form in respect of her qualifying children. The form was completed and returned to the Agency within a month, but with no contact details for the non-resident parent. Attempts were made to trace the non-resident parent for almost three years. However, despite evidence to show the non-resident parent was in work or in receipt of various benefits during some of this time, the Agency was unable to obtain a response. A maintenance assessment was made over three years after the original application was received. Throughout the entire life of the case the non-resident parent did not cooperate or accept contact with the Agency at any time.

3.20 Between February 2005 and January 2006 the Agency cleared more cases than it received (see Figure 11). However, this includes those old scheme cases cleared in these months (see paragraph 3.23). The Agency is not yet consistently clearing more new scheme cases than it receives each month and the current backlog of new cases will continue to grow. In 2005-06 the Agency cleared on average 27,000 new scheme applications a month against an intake of around 27,000 new applications. Without any further new applications the total current backlog of cases could take the Agency over a year to clear. Of the most recent cohort of cases cleared, 45 per cent (6,300 cases) of new applications received in December 2005 were cleared within 12 weeks and 66 per cent (11,200 cases) of new applications received in September 2005 were cleared within 26 weeks¹⁵.

3.21 The Agency's recently announced improvement plan recognises the need to increase the volume of cases being processed and reduce the backlog of work. The Agency is now looking to increase the number of staff working on new scheme cases and double the productivity of these staff over the next three years by reducing non-productive time and enabling staff to work more quickly through system and business changes. The Agency is planning to re-deploy up to 1,700 of its staff from their current roles into active case progression work. Staff are likely to be re-deployed from head office functions, operational planning teams, and it is envisaged that executive officers, will for the first time, be employed on active case work. The Agency is also planning to temporarily increase its total number of staff by around 1,000 to address the backlog of cases. Work is currently underway to maximise the proportion that can be provided by transferring staff from other parts of the Department, although an external recruitment exercise will be necessary.

11 Intake of new cases against cases cleared¹ each month



Source: Child Support Agency

NOTE

¹ Old scheme cases are considered cleared when an assessment has been made, whereas new scheme cases are only considered cleared when a calculation has been made and a payment schedule has been set up.

¹⁵ These figures exclude a number of potential cases that had come via the Jobcentre Plus interface, for which no management information is currently available. The September figure excludes 7,000 such cases from an intake that month of 24,000 cases, and the December figure excludes 9,000 cases from an intake of 23,000.

3.22 There are also 66,000 old scheme cases that have not been cleared, even though they are more than three years old, largely where the non-resident parent cannot be traced. More than half of these (36,000 cases) have been migrated to the new CS2 system, but still qualify for calculation under old rules. Information is not available on the migrated cases to indicate why these cases have not yet progressed to an assessment. Of the remaining 31,000 outstanding old scheme cases an estimated 28,000 have been suspended, principally where the Agency has been unable to trace the non-resident parent. These remain within the current caseload as only the applicant can close the case and the Agency has failed to progress the case to a satisfactory outcome for the applicant. It is likely that a similar number of the old cases on CS2 have been suspended in the same way.

3.23 Between January and March 2006, the number of uncleared old scheme applications fell by eight per cent, from 362,000 to 333,000. During 2005 approximately 3,000 old scheme cases a month were cleared and at this rate it will take over 22 months to clear all outstanding old scheme cases.

3.24 The Agency now plans to improve its ability to trace non-resident parents, to both improve the time it takes to clear cases and to ensure that absent parents cannot avoid their responsibility. Although the Agency has always been able to request information on individuals from HM Revenue and Customs, the Agency is now working more closely with them looking at the feasibility of allowing the Agency to use historic income data as basis for maintenance calculations. Trials are also underway to enable access to key information such as addresses and employers to assist the Agency with tracing non-resident parents and enable it to obtain vital information more quickly.

3.25 The Agency is also seeking to improve its ability to trace non-resident parents through increasing the range of information it has available to it, including for example, that held by credit reference agencies. The Agency is also planning to use private sector tracing agencies where its own teams are unsuccessful. This will assist in both the assessment process as well as enforcement activity against non-compliant non-resident parents (see paragraph 4.22).

The anticipated improvements in more timely decisions and assessments have not yet been realised

3.26 The average age of all 669,000 new scheme cases cleared by the Agency up to the end of March 2006¹⁶ was 34 weeks. However, cases cleared in March 2006 took on average 38 weeks to close. This is in part due to the backlog of old cases that the Agency has started to focus attention on. Twenty-six per cent, cleared in March 2006 had been with the Agency for over 12 months.

3.27 Lengthy delays in reaching a maintenance calculation impacts negatively on those parents with care not in receipt of benefits who will not be receiving money from non-resident parents. Depending on when first contact is made with the non-resident parent (see Figure 9 and Appendix 1 for a description of how cases progress to clearance), lengthy delays will also result in considerable debt building up on the case (see paragraph 4.16), which may raise the expectations of parents with care and make it difficult for non-resident parents to fulfil their obligations. Where the parent with care is in receipt of benefit, lengthy clearance delays also affect the Agency's ability to take action to recover child support maintenance from the non-resident parent on behalf of the Secretary of State.

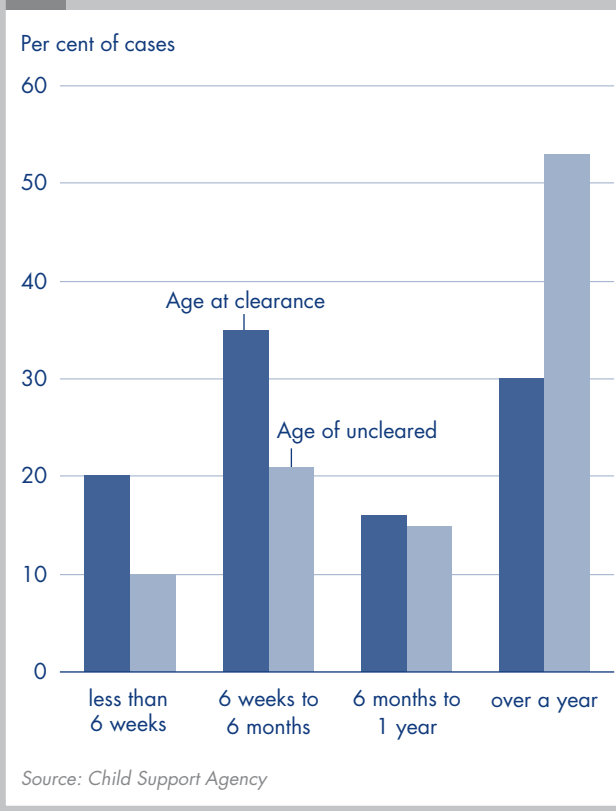
¹⁶ This excludes over 100,000 cases which came to the Agency through the Jobcentre Plus interface and for which insufficient management information exists to enable the age of the case to be determined.

3.28 The lengthy clearance times, as well as the large backlog of cases, is also preventing many parents with care on Income Support from benefiting from the Child Maintenance Premium, introduced as part of the Reforms to encourage those parents with care who are in receipt of benefits to comply with the application process. This entitles the applicant to up to £10 additional maintenance per week once the non-resident parent starts making payments towards the maintenance due. At March 2006 there were 42,000 parents in receipt of the premium, amounting to £1,450,000 in payments that month. Up to March 2006 the Agency had received 658,000 applications from parents with care via Jobcentre Plus, where the parent has applied for income related benefits. Although not all of these would qualify for the Child Maintenance Premium, for example those cases closed or where the parent is non-compliant, the number that qualified is quite small. Around 100,000 benefit related cases have received at least one Child Maintenance Premium payment so far, receiving just under £23 million in payments to date.

3.29 When the new scheme was introduced the Agency had an aspirational target that a calculation would have been made and payment arrangements put in place for the majority of new cases within six weeks of the application being received. So far only 20 per cent of all new cases cleared have done so in less than 6 weeks (see Figure 12). During the first year following the launch of the new scheme around 35 per cent of cases were cleared within this time but more recently this has reduced to around 23 per cent. Overall, around two thirds of cases are cleared within six months of first contact with the Agency. The average age of uncleared applications is 69 weeks and over 250,000 applications (53 per cent) are over a year old.

3.30 By implementing changes to the way in which the Agency is structured, including deploying additional resources to clear the backlog of cases, the Agency expects to be able to improve the speed with which applications are processed in the future. By March 2008 it expects the time taken to clear an application to be, in around 80 per cent of cases, no longer than 18 weeks, and by March 2009 no more than 12 weeks. The Agency recognises however that there will always be non cooperative clients and those more complex cases that take longer to process. To handle these, the Agency plans to introduce senior caseworkers to deal with these more complex cases to assist in reducing error.

12 Age of new scheme cases at clearance (scheme to date) and age of uncleared applications










More new scheme cases are resulting in a positive maintenance liability calculation

3.31 Not all applications for a maintenance calculation result in money being due from non-resident parents to parents with care (see Box 10). Almost 60 per cent (381,000) of the 669,000 new scheme applications cleared so far have not progressed to calculation and clearance. Half of all cleared cases are closed before an assessment has been made on them. This may be, for example, where the parent with care is no longer in receipt of benefit and therefore not required to involve the Agency, or where the parents reconcile.

BOX 10

Possible outcomes for maintenance applications

Maintenance applications can result in a number of different outcomes. It is possible for a case to move from one outcome to the other as the circumstances of the parent with care and/or non-resident parent change.

Outcome	Money due	Circumstances
Case closed	 No money due at this time	Where the parents reconcile or a private application is withdrawn. This may also occur where the parent with care no longer receives benefit and is not required to involve the Agency in the collection of maintenance. Such cases will not be closed where there is an outstanding debt on the case and the Agency is taking action to recover this on behalf of the Secretary of State.
Good cause	 No money due	Where the parent with care in receipt of benefit has supplied a sound reason why they would not want the non-resident parent to be contacted. This may be, for example, where there is a fear of violence.
Reduced benefit decision applied to parent with care	 Benefit entitlement reduced	Where the parent with care is in receipt of benefit and the Agency has reason to believe that they are not cooperating or providing the necessary information on the non-resident parent as required to do so. Since March 2003 parents with care on benefits who cooperate fully are entitled to an additional payment of up to £10 a week once maintenance payments are received from the non-resident parent, known as Child Maintenance Premium.
Nil assessed	 No money due at this time	Where the Agency has determined that the non-resident parents income does not enable them to pay maintenance at this time or where in doing so would put others at risk of poverty. Cases may also be suspended where the non-resident parent is not in a position to pay, for example where they are in prison.
Reduced rate	 Dependent on the income of the non-resident parent	Where the non-resident parent earns a net weekly income of more than £100 but less than £200 per week.
Flat rate	 £5 per week due	Where the non-resident parent earns a net weekly income of £100 per week or less, or is in receipt of benefit, a flat rate is applied.
Interim maintenance assessment (old scheme only)	 Punitive assessment – likely to be higher than full maintenance assessment	Where the non-resident parent is not cooperating with the Agency and not providing the information needed to make a full assessment the Agency can apply a punitive rate. This is likely to be higher than a full maintenance calculation and was introduced to prompt non-resident parents to be compliant.
Default maintenance decision (new scheme only)	 Punitive assessment – likely to be higher than full maintenance assessment	A default maintenance decision is applied to the case when the Agency is unable to obtain sufficient information to make a maintenance calculation. The charges applied are fixed according to the number of qualifying children involved.
Full maintenance assessment/maintenance calculation	 Dependent on the income of the non-resident parent and the number of dependent children	Based on all the information provided by both the parent with care and the non-resident parent the Agency established the weekly/monthly maintenance due.

Source: National Audit Office

3.32 A large number of assessed cases result in no maintenance liability (nil assessed), where the non-resident parent can provide evidence that their current financial circumstances mean they are unable to pay maintenance to the parent with care. The introduction of the simplified calculation as part of the Reforms reduced the amount of expenditure that was taken into account and the allowances that non-resident parents can have applied to their income before the maintenance calculation is made. One of the aims of this simplified calculation was to reduce the number of non-resident parents able to avoid paying maintenance and to increase the number of parents with care and children that received financial support from the non-resident parent.

3.33 Of the 1.2 million cases where an assessment has been completed, 41 per cent (483,000) have a nil maintenance liability. Fewer new scheme applications are resulting in nil calculations overall (13 per cent) than old scheme cases (53 per cent). All cases with a nil liability remain open as there is potentially maintenance due to the parent with care or Secretary of State and circumstances may change that make it possible to collect money from the non-resident parent.

3.34 Although more parents are likely to receive maintenance under the new scheme than the old scheme the Agency finds it is chasing smaller amounts of maintenance to achieve the same compliance levels (see paragraph 4.5). This is because there has not been an associated increase in case and cash compliance¹⁷ for new scheme cases (see [Figure 16 on page 62](#)) which is still below the compliance levels of old scheme cases.

Only a small percentage of assessments actually result in payments from non-resident parents

3.35 There are around 703,000 cases with a positive maintenance liability, where the Agency has established that money is due, and payable, from the non-resident parent (see [Figure 13](#)). This excludes 29,000 old scheme cases with a punitive assessment imposed on the non-resident parent, where they are not providing the information required,¹⁸ which will be much higher than normal.

13 Status of assessed cases by qualifying scheme (000s) – at March 2006

	Old scheme	New scheme	Total
Nil assessed	438	45	483
With positive liability	391	312	703 ²
Total number of assessed live cases	829 ¹	357	1,186

Source: Child Support Agency

NOTES

1 Includes 29,000 old scheme cases with an interim maintenance assessment.

2 See figure 14.

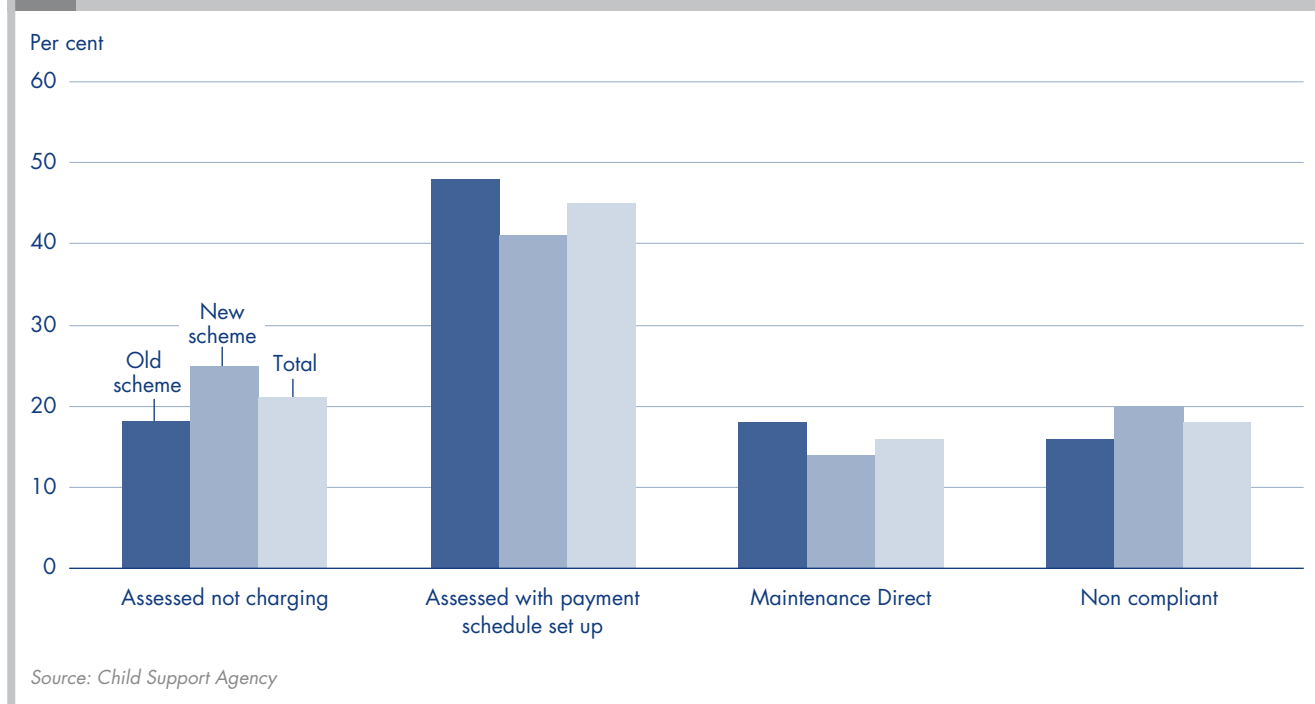
3.36 Around 440,000 (63 per cent) of the cases that have a positive maintenance liability have been charged by the Agency. For the remaining 37 per cent of cases (263,000) money is either not expected to be collected by the Agency, for example where direct payments are made by the non-resident parent, or the non-resident parent has yet to be asked for maintenance payments.

3.37 Parents with care may choose to receive payment directly from the non-resident parent, excluding the Agency from the collection of money. Although the Agency is responsible for calculating the maintenance due, in these cases it is not responsible for collecting and passing on any money from the non-resident parents. This potentially enables staff to focus effort on monitoring the compliance of other cases and processing new cases. Overall around 16 per cent of cases with a positive maintenance liability (112,000) result in direct payments from the non-resident parent, known as Maintenance Direct; however more old rules cases with a positive liability (18 per cent) than new rules cases (14 per cent) are currently choosing this option ([Figure 14](#)). This may in part be a reflection of the lower number of private new rules cases received as a proportion of all new rules cases since March 2003.

17 Case compliance is a measure used to indicate the number of non-resident parents paying through the Agency's collection service as a proportion of those expected to pay money. This is not dependent on the non-resident parent paying regularly or indeed fully the amount that is due. Cash compliance is defined as the total amount of maintenance received against the total amount charged by the collection Agency.

18 The Agency can put an interim assessment in place where the non-resident parent is not co-operating and providing all the necessary information needed to complete a full maintenance assessment.

14 Outcome of those 703,000 cases with a positive liability



3.38 In a further 21 per cent (151,000) of cases where money is payable, the non-resident parent has not yet been charged where the payment schedule has not yet been set up. Over half of these (53 per cent) are new scheme cases. Around 19 per cent (29,000) of these cases are where a new case has a positive liability but the Agency is waiting to set up the payment schedule and method of payment, and in part may be due to the time lag associated with setting up payment methods such as standing orders. The remaining 81 per cent of cases where there is a positive liability (122,000) that are not yet being charged are relevant to both schemes and are likely to be where the Agency has been informed of a change of circumstances, of either the non-resident parent or parent with care, and the maintenance liability is being re-assessed or re-calculated. It is not known whether payments are likely to continue from the non-resident parent whilst the change in circumstances is being actioned.

3.39 Management information is not yet available on how many assessed cases are waiting for the Agency to action a change of circumstance. Where delays occur to processing these it could have an adverse effect on accuracy of the amounts of money being received from non-resident parents and paid to parents with care. This may result in the Agency having to refund non-resident parents where a change of circumstances results in lower maintenance payment but the Agency has continued to collect and transfer the higher amount to the parent with care.

Many customers are experiencing poor levels of service and complaints to the Agency continue to grow

3.40 The difficulties with the implementation of the new system and subsequent delays in processing cases have contributed to a high level of complaints being made by the Agency's customers. The Agency has a three tier system for handling complaints from customers. Unsatisfied complainants can escalate their complaint up through the tiers until a satisfactory resolution is achieved (see Figure 15).

3.41 Unsatisfied customers can also elect to direct complaints through a more official route such as via their MP or, once the Agency's own complaints process has been exhausted, to the Independent Case Examiner. Customers may complain through more than one route at a time.

3.42 In 2005-06 the Agency received 54,898 complaints (compared to 55,602 in the previous year). In the same period the Independent Case Examiner's Office, which provides a free impartial complaint review and resolution service to Agency customers, accepted 1,348 complaints for investigation compared to 1,257 in 2004-05.

3.43 Overall 41 per cent of complaints accepted by the Independent Case Examiner's Office in 2005-06 were about delays in processing the case and a further 25 per cent were about errors on the assessment or calculation. Cases where customers have complained, for whatever reason, are transferred and investigated by one of over 1,000 specific complaints handling staff located within business units.

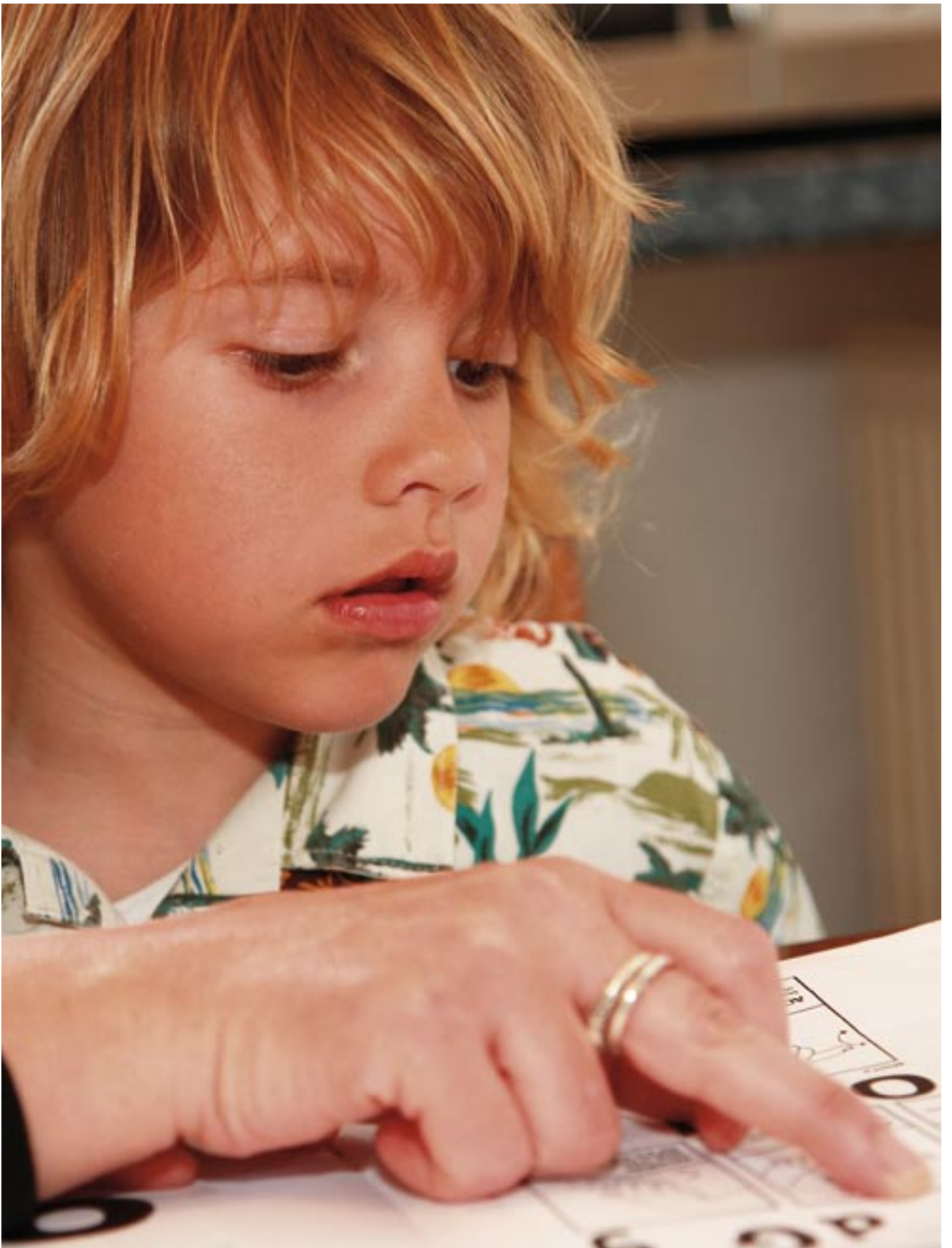
15 Complaints process

		2004-05	2005-06
Stage 1:	Business Unit Resolution Team responds to the complaint	39,783	38,004
Stage 2:	Complaint elevates to the complaint Area Director level	5,595	4,877
Stage 3:	Complaint elevates to Chief Executive level	2,594	2,290
Complaints from officials	Member of Parliament to Chief Executive	5,840	5,887
	Member of Parliament to Business Unit	8,871	9,729
	Treat Official (<i>complaints sent from clients to officials or ministers</i>)	1,108	1,278
Total Complaints ¹ (as a percentage of total caseload)		55,602 (4)	54,898 (4)

Source: Child Support Agency

NOTE

¹ Stages 2 and 3 complaints are regarded as additional work activities rather than fresh intake, as they relate to complaints that have already been acknowledged at Stage 1 and are therefore not included in the total number of complaints.



PART FOUR

Ensuring that non-resident parents comply with the maintenance decisions made by the Agency



4.1 This part of the report looks at the Agency's ability to collect money from non-resident parents and transfer this to the parent with care or the Secretary of State once a maintenance decision has been made.

4.2 By the end of 2006 the Agency estimates that it will have collected over £5 billion in maintenance payments since it was formed in 1993. During 2004-05 alone the Agency collected £603 million from non-resident parents and made payments of £472 million to parents with care. In addition, £119 million was transferred to the Secretary of State and £9 million was refunded to non-resident parents who had made overpayments. The remaining £3 million was maintenance waiting to be cleared by the Agency. However, not all the money assessed by the Agency as due is collected, either where the non-resident parent only pays part of the maintenance or is totally non-compliant.

4.3 Failing to pay the maintenance due can cause real hardship and have lasting consequences for the parents with care and children, something the Agency is now looking to increase the awareness of. The Agency has responsibility for enforcing the payment of maintenance and ensuring that non-resident parents pay what they are expected to.

Many non-resident parents are not paying the maintenance due to their children

4.4 Although the Agency does successfully collect large sums of money this does not represent the total amount due. At March 2006 70 per cent of the money that was due was successfully collected. There are differences between old and new scheme cases however. At March 2006 63 per cent of the maintenance due on new scheme cases had been collected against a target of 75 per cent, compared to 75 per cent on old scheme cases against a target of 68 per cent (see **Figure 17 on page 64**).

4.5 One of the Agency's key performance measures is the extent to which non-resident parents are compliant with the assessment that has been made on the case, known as case compliance. Case compliance is based on the percentage of those cases where money is expected to be received (440,000 cases) against the number of cases where at least one payment has been made on the case in the previous three months, regardless of regularity or amount paid. At March 2006, 71 per cent of cases are recorded as compliant to some degree (**Figure 16 overleaf**).

16 Performance against targets (per cent of cases)

Key performance target	2004-05				2005-06 ³			
	New rules		Old rules		New rules		Old rules	
	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved
a Case Compliance	78	66	75	72	78	67	75	75
b Cash Compliance	75	61	68	73	75	63	68	75
c Last Decision Accuracy ¹	90	75	82	78	90	81	82	84
d Debt/arrears ⁴	No target		No target		30	41 ⁴	see note 4	

Source: Performance measures (a), (b) and (c) form part of the Key Ministerial Targets disclosed in Annex 1 to the 2004-05 Child Support Agency Annual Report. Performance Measures (d) and (e) sourced from the Child Support Agency

NOTES

- 1 See paragraph 4.21.
- 2 Measurement is based on checks carried out on a sample of cases that grows cumulatively throughout the year.
- 3 Sourced from the Child Support Agency.
- 4 Target and outturn across both old and new schemes.

4.6 Nearly one in three non-resident parents who are asked by the Agency to pay maintenance to their children, fail to make any payment at all. At March 2006 there were 63,000 new scheme cases where the non-resident parent has been totally non-compliant, around 33 per cent of new scheme cases charged by the Agency. However, compliance in new scheme cases has improved over the last year, from 66 to 67 per cent, although it remains well below the target of 78 per cent. Old rules cases continue to perform better, up three percentage points from the previous year to 75 per cent in March 2006, above the Agency's 68 per cent target. A new 75 per cent maintenance outcome target has been developed for 2006-07 which includes cases which use Maintenance Direct and those cases assessed without a payment schedule set up. Performance against previous targets will continue to be monitored by the Agency but performance will not be comparable with previous years. The Agency expects to reach 80 per cent compliance by March 2009.

4.7 Not all those cases that are treated as 'compliant' for the performance measure are fully compliant. Currently only 51 per cent of 'compliant' new scheme cases (65,000) are receiving the full maintenance due compared to 62 per cent (194,000) of all cases.

4.8 The Agency has recognised that non-resident parents need to have easy access to payment options and that these options should be both flexible and modern. The Agency announced in February that it is now looking at increasing compliance through a wider range of more modern payment options, such as by credit and debit cards. The Agency also plans to develop risk profiles, using information held by the Department for Work and Pensions and supplemented by credit reference data, to enable it to identify behaviours and those non-resident parents who are most unlikely to pay and target efforts on ensuring that maintenance is paid. Where it is clear that non-resident parents are fully meeting their responsibilities the Agency may reduce the level of intervention with the case.

4.9 Under current legislation Deduction of Earnings orders can only be used as an Enforcement action where the non-resident parent defaults on payments or indicates that they are unlikely to pay. These orders are currently used in around one in five maintenance collections, around 156,000 at March 2006, and require the non-resident parent to recover money owed direct from the non-resident parents' earnings and forward this to the Agency. The Agency is now seeking to add payments direct from wages or salary as a voluntary method of collection. This will be used to collect regular payments of ongoing maintenance. Where an employer is willing to do so, the non-resident parent will arrange for maintenance to be deducted at source and paid to the Agency.

Continuing problems with the IT are delaying payments to children and are administratively costly

4.10 Continuing problems with the new system are delaying payments to parents with care even where money has been received from non-resident parents. Currently, around 2,500 cases a month require the Agency to manually make a payment, usually to the parent with care, where the system has failed to do this automatically. This process however can take six to eight weeks before the payment is sent out, although this time is reduced where the problem occurs each month on the same case.

4.11 During this time the Agency has to initiate an investigation on why the payment has failed and determine whether there is a known fix for the problem. If the fault can be rectified, the payment will be triggered automatically and go out through the CS2 system. Where no remedy is available the Agency must manually set up a payment for the parent with care.

4.12 The idea behind introducing a manual payment was essentially to ensure that the parent with care would receive a maintenance payment. Initially the volumes involved were very low, and the very complicated and laborious manual process was therefore not too onerous on the Agency as a whole. However, the volume of these is rising month on month and stood at around 2,000 payments (valued at around £250,000) in January 2006.

4.13 There is now a dedicated team whose responsibility it is to authorise, administer and make these payments. This is in addition to the manual payments teams at the individual business units and associated time taken by IT teams to investigate the underlying issues.

4.14 Such IT failures and other associated processes are having a continued impact on the cost of operating the Agency and its ability to provide a satisfactory service to its customers. As well as manual payments there are also occasions when the system pays out a non-resident parent's maintenance to the wrong parent with care. For example, one non-resident parent may be responsible for children in three separate cases and any maintenance received by the Agency should be split between 3 parents with care, A, B and C. But due to functionality problems within the CS2 system, the entire payment is paid only

to A. Alternatively, an employer may send payments to the Agency directly to cover combined deductions from earnings for several employees. However, they may only supply the name of one employee to whose case this maintenance is applied (and thereby paying the associated parent with care the entire amount). Even where the maintenance payment to the parent with care can be far greater than that usually anticipated, if there are arrears owed, the system does not flag any tolerance or exception and pays the amount regardless. This can have significant repercussions where, for example, other parents with care do not receive the money due and the Agency has to use its own funds to pay these parents with care whilst it tries to track and recover money.

4.15 The Agency's Administration Account¹⁹ must fund the outstanding maintenance to the parents with care who have not yet received their payments. In addition, an approach must be made to parent with care A to 'invite' repayment of the additional maintenance received. This can be understandably stressful for all the parties involved. Frequently, the overpaid parent with care is not in a position to repay this debt and the Agency must bear this cost. During 2004-05 refunds of £5.5 million were made by the Agency.

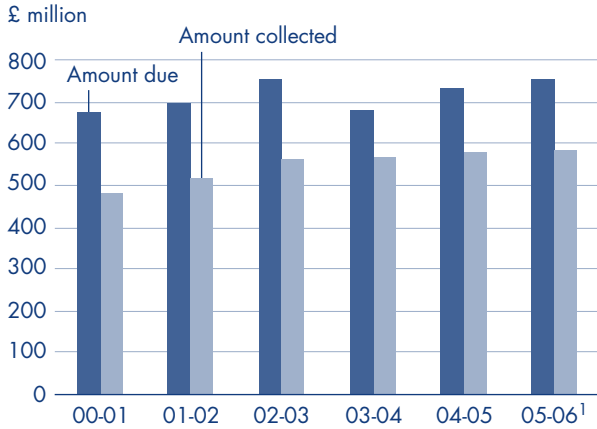
The amount of uncollected maintenance continues to grow

4.16 For every non-compliant, or partially compliant case, where the full amount of maintenance is not paid by the non-resident parent, debt starts to accrue (see Figure 17 overleaf). At present there is an estimated £3.5 billion (March 2006) of outstanding maintenance to be collected. Debt can accumulate in a number of ways and over half of this debt, £1.98 billion, is considered by the Agency to be uncollectible, at 31 March 2005. This could be where, for example, the debt relates to a private case where the parents have reconciled and the application is not being pursued. The Agency has no power to write off debt at present and it is therefore inevitable that debt will continue to grow, especially where compliance falls well below 100 per cent and there continues to be a large number of old scheme cases where an Interim Maintenance Assessment is in place.

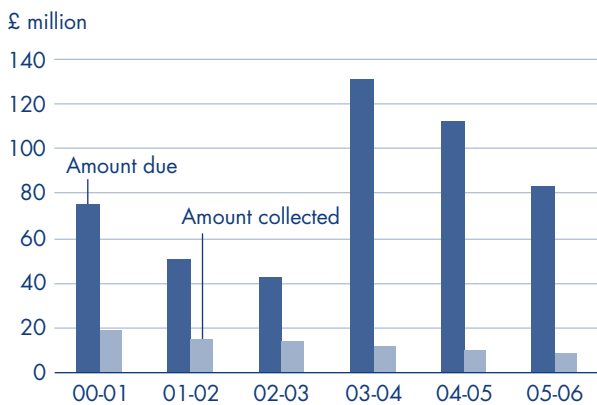
¹⁹ The funds from which the Agency's expenditure from moneys voted by Parliament is accounted for in the Agency's Administrative Account which does not include the money collected from non-resident parents to be passed on to parents with care, accounted for in the Agency's Client Funds Account.

17 Cash compliance across both schemes (£million)¹

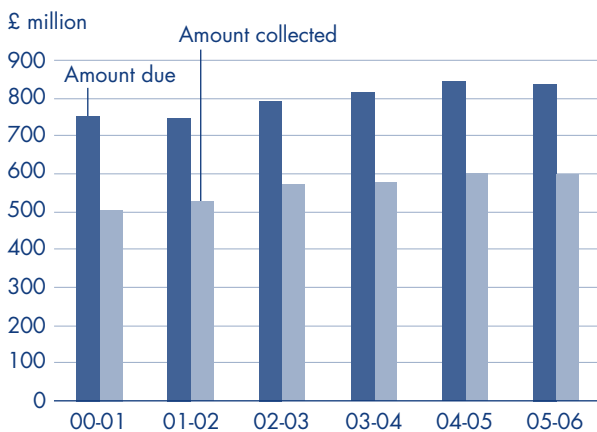
Full maintenance assessments and maintenance calculations



Interim maintenance assessments and default maintenance decisions



Total



Source: Child Support Agency

NOTE

¹ At the time of this report figures for 2005-06 had not been fully audited by the National Audit Office.

4.17 In England and Wales, debt that is greater than six years old, currently estimated at around £760 million, cannot be subject to a liability court order.²⁰ Such debt is not pursued by the Agency's enforcement directorate (see paragraph 4.22). The only way that this debt would be collected in future is if the non-resident parent remains compliant and agrees to pay the debt back.

4.18 To reduce the rapid increase in the value of arrears the Agency now has a target to collect 30 per cent of the amount accruing over each reporting period. Whilst this will not reduce the total amount of debt, it will slow the rate at which debt is accruing.

4.19 It is currently very difficult for the Agency itself to obtain a full list of all those non-resident parents where debt has accrued from either CSCS or CS2. Having this facility would enable the enforcement directorate to target efforts more effectively. Those cases which are pursued by the enforcement teams that are subsequently considered 'compliant', when three consecutive monthly payments or six consecutive weekly payments have been received, are passed back to the maintain compliance teams. However, due to limitations with the systems, there is no facility to identify that previous enforcement action has been taken and that the case may initially represent a higher risk of non-compliance.

4.20 As well as debt accumulating once an assessment has been made, debt can also accumulate whilst the maintenance assessment is being calculated. Where there is a lengthy delay in setting up a payment schedule, or clearing the case after the effective date, non-resident parents may be faced with large arrears which they may find difficult to pay in full and may discourage them from engaging with the Agency. At the time of the assessment the Agency expects case workers to advise the non-resident parent that they should start making voluntary payments to the parent with care or the Agency, which will reduce their future debt. Alternatively, they can start putting money aside to cater for this at a later date. However, the sums accumulated can be tens of thousands of pounds, although at present the Agency is unable to identify the largest outstanding debt.

20 Limitations Act 1980.

4.21 The Comptroller and Auditor General has qualified his audited opinion on the Agency's Client Funds Account²¹ for 10 consecutive years due to the effect on the receipts and payments statement and corresponding debt notes of errors in the underlying maintenance assessments. In 2004-05, error rates of six per cent were detected from the cases reviewed for receipts. Error rates of 56 per cent, for full maintenance and maintenance calculation debt, and 50 per cent, for interim maintenance assessments and default maintenance assessment debt were also found. It could be argued that the errors in the underlying assessments give rise to further problems with collection. The non-resident parent may be more unwilling to pay if there is limited confidence in the Agency's calculation.

The Agency has yet to make full use of the enforcement powers that it has to ensure that non-resident parents contribute fully to the maintenance of their children

4.22 The Agency is now looking at improving the collection of maintenance and recovering debt through greater enforcement activity and drawing on best practices from the private sector. Action to enforce compliance has increased over the last 12 months but more use could be made of the powers available to the Agency.

4.23 There are currently 19,000 cases being dealt with by the Agency's enforcement directorate, dealing with cases across the whole of the United Kingdom. This is a small fraction of the 127,000 completely non-compliant cases, as well as around 120,000 partially compliant non-resident parents. During 2004-05 enforcement teams collected around £8 million in direct payments, although this does not take account of any future payments made by the non-resident parents in these cases. The total cost of enforcement activity during 2004-05, including work on penalties, fraud investigations and information gathering, was an estimated £12 million. The enforcement directorate estimate that collections during 2005-06 as a result of legal enforcement action have increased to £13.5 million.

4.24 Enforcement action is difficult to target at present as the Agency's accounting systems do not enable it to identify the largest debtors or most persistent offenders. Cases are passed to enforcement teams by new client teams and maintain compliance caseworkers when they detect that payments are not being made, who calculate manually the debt owed. It is vital that this information is accurate. Enforcement teams have not in the past had responsibility for checking the accuracy of the assessment, but must defend the figure in court. In 2005 the Child Support Agency Standards Committee²² reported to the Work and Pensions Select Committee that 65 per cent of the cases where a liability order was sought were inaccurate. Non-resident parents can dispute the assessment and get the Agency to recalculate the assessment again through a tribunal. In some instances this recalculated figure can then give non-resident parents confidence in the Agency's work and encourage them to pay.

4.25 To improve the accuracy of these orders the Agency has since introduced a quality assurance process that all cases seeking a liability order must go through. Where errors are detected cases are sent back to the maintain compliance teams for reconsideration. Further improvements to this process are included in the Operational Improvement Plan and dedicated enforcement officers will recalculate maintenance assessments directly rather than send these back to case workers. The number of liability orders secured has increased, and the Agency is planning to increase further the number of non-resident parents that it brings to court. Since 2004-05 the Agency has increased the number of liability orders by 42 per cent, from 6,782 to 9,604 (see Figure 18 overleaf).

4.26 Once the Agency successfully secures a liability order they are then able to recover the money owed, either through bailiff action, third party debt action, applying for a charging order and seeking to force the sale of assets, including the non-resident parent's home. If all of these measures fail or are considered inappropriate, the Agency can apply to the courts for committal, up to 42 days, or removal of the non-resident parent's driving licence for up to two years, to coerce them into paying.

21 Money collected from non-resident parents for payment to parents with care or the Secretary of State are held in the Client Funds Account.

22 Work and Pensions Select Committee minutes of oral evidence given on 15 February 2006, HC920-i.

18 Number and type of enforcement action taken by the Agency in England and Wales to collect debt

Action ²³	2003-04	2004-05 ⁵	2005-06
Liability orders ¹	3,385	6,782	9,604
3rd Party debt orders ²	1,395	1,292	1,244
Applications for charging order ³	922	851	1,066
Initial committal hearings ⁴	331	617	529
Referral to bailiffs	3,063 (£1.5 million raised)	4,446 (no data on money collected)	8,554
Suspended committals	95	224	376
Committals ⁶	8	8	15
Suspended driving licence sentence	9	31	35
Actual Driving Licence seized	1	5	5

Source: Child Support Agency

NOTES

- 1 Magistrates must agree with the Agency that the debt exists and that the non-resident parent is liable to pay it. The Liability Order is the document, which proves that the magistrate agrees there is a debt. Once secured the Agency is able to pursue recovery of the money via bailiff action or subsequent court action.
- 2 Once a Liability has been secured the Agency can apply to the non-resident parent's bank and ask them to remove the money owed if it is contained in the account.
- 3 The Agency can take legal action to attach a notice that prevents the non-resident parent from selling their house without paying the debt owed. In essence the Agency attach the debt to any profit the non-resident parent may have in the house that is not already subject to a charge.
- 4 These are the first hearings for committal action in court.
- 5 These figures have previously been reported incorrectly in the Agency's Annual Report 2004-05.
- 6 This includes committals in Scotland.

4.27 The Agency has now recognised the need to take firmer action against those who default on payment but has not to date used its powers fully. As part of a £30 million interim investment in enforcement activity, the Agency now plans to use a number of external debt collection agencies to recover over £110 million of outstanding debt. The Agency currently expects private debt collection activity to start in September 2006, with in-house debt preparation work in advance of this. Work is currently underway to establish the full extent of the Agency's requirements but it is likely that Agency staff will select and process segments of debt and transfer this to the private collectors to either use debt collection methods or litigation to recover the debt. Debt collection agencies

will be paid based on a percentage of the total amount of debt that they recover. The private sector agencies will operate under a code of conduct and it is expected that the Agency will monitor compliance of this code.

4.28 In addition to contracting out some of the debt collection activities the Agency is also seeking to improve its own debt collection and enforcement activity by drawing on external best practice. A further 600 staff are expected to be trained in enforcement activities by early 2007 and the number of staff engaged in enforcement is expected to increase from 650 to over 2,000 by 2009.

23 Annual Report and Accounts, 2004-05.

APPENDIX ONE

Processing applications for child maintenance

(see figure overleaf)

Making First Contact with the CSA

1 Contact is either made directly with the Agency for private cases or via Jobcentre Plus where the parent with care is applying for Income Support or Jobseeker's Allowance. A Maintenance Application Form (MAF) – a copy of which is available at www.csa.gov.uk/new/apply/forms – is either issued to the parent with care in private cases, or completed by Jobcentre Plus, which records the necessary information to process the application. This contains details of the qualifying child and the non-resident parent (NRP).

2 If the parent with care believes that contacting the non-resident parent may put them in danger or any children at risk of harm or undue distress they can apply for 'Good Cause'. This is only relevant in cases where the parent with care is in receipt of benefits. If 'Good Cause' is accepted the parent with care can carry on receiving the full amount of benefits although this may be reviewed and reconsidered at some point in the future. If the applicant is in receipt of benefits (i.e. contact to the Agency has been through Jobcentre Plus) and is unco-operative, and there is not Good Cause the parent with care may have their benefits reduced by up to 40 per cent.

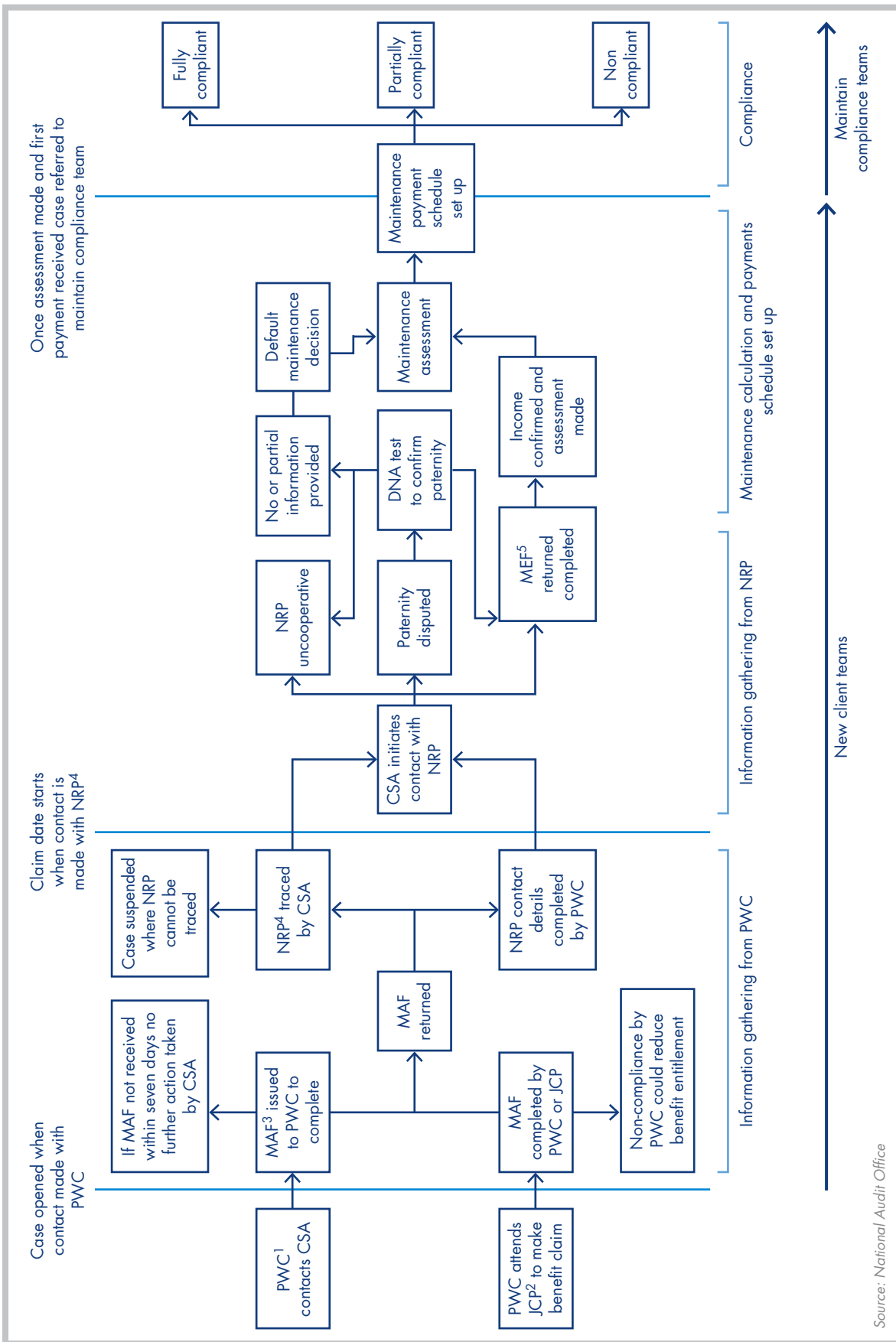
Contacting the NRP

3 On receipt of the MAF an attempt is made to contact the non-resident parent. In some circumstances it may be that contact is initiated by the non-resident parent where they have requested the Agency's involvement in the calculation of maintenance. This is unusual however and only likely to occur in a private case where the parents involved are disputing the maintenance to be paid or are looking for a body through which to pay maintenance.

4 If the parent with care is unaware of the contact details of the non-resident parent the Agency has responsibility to 'trace' them based on whatever limited information may be available. This could involve contacting previous employers, HM Revenue & Customs or Jobcentre Plus. The Agency does not have free access to other government departments' databases and initiating trace requests are conducted through specific teams or individuals based in business units.

5 The first point of contact with the non-resident parent is termed the 'effective date' or the start of the claim, any subsequent maintenance payments assessed accrue from this point forward. Once the non-resident parent is contacted, and if they are aware of the qualifying child and are co-operative a Maintenance Enquiry Form (MEF) – available at www.csa.gov.uk/new/apply/forms – is completed with all the necessary information in order to enable the Agency to make a calculation of the maintenance due. This can be completed over the telephone.

6 The non-resident parent is then required to provide confirmation of earnings in order to perform a full maintenance calculation. This can either take the form of payslips, or if these are not forthcoming, the Agency can contact the employer to obtain verification of earnings. If it is not possible to obtain information regarding a non-resident parent's earnings the Agency may consider a 'default maintenance decision'. Where the non-resident parent is in receipt of benefits themselves, confirmation of their income can be obtained through Jobcentre Plus.



- NOTES
- 1 PWC – Parent with Care
 - 2 JCP – Jobcentre Plus
 - 3 MAF – Maintenance Application Form
 - 4 NRP – Non-resident Parent
 - 5 MEF – Maintenance Enquiry Form

Settling the paternity of the qualifying child

7 If the non-resident parent disputes the paternity of the child on the application then he can apply for DNA testing before providing information on earnings. The Agency cannot force someone to take this test but if they don't it is assumed that they are the parent. The costs of these tests are met by the Agency. However, if the non-resident parent goes ahead with the test and it is proved that they are the parent, they are liable to re-pay the costs. If a non-resident parent continually cancels these tests the Agency makes the assumption that they are non-compliant and therefore the parent.

Performing a Maintenance Assessment

8 Once the relevant forms have been completed, paternity of the qualifying child is confirmed and the non-resident parent's income verified, a maintenance calculation can be performed. Under the new child support system this is predominantly based on a proportion of the non-resident parent's net income, dependent on the number of children being claimed for – 15 per cent for one child, 20 per cent for two children and 25 per cent for three or more children. Where care of the child is shared with the non-resident parent then the assessment is reduced proportionately.

9 If the non-resident parent is in receipt of benefits themselves then a flat rate of £5 per week is usually applied unless they have shared care. A small number of non-resident parents will not have to pay maintenance, these include students, prisoners, those under 19 and people living in residential care or nursing homes and getting help with the fees. If it has not been possible to collect all of the above information a default maintenance decision can be made.

10 The Agency then receives money from the non-resident parent. This may be as a manual payment, direct debit, standing order or deduction from earnings from the non-resident parent's employer. These are then paid over to the Secretary of State where the parent with care is in receipt of the relevant benefits or to the parent with care in private cases. Under the new system a parent with care in receipt of benefits is entitled to keep up to the first £10 of any child maintenance collected from the non-resident parent, known as the Child Maintenance Premium.

Default maintenance decision

11 This occurs when the information needed to work out maintenance cannot be obtained straightaway. Default decisions takes effect from the date that the maintenance calculation would have taken effect. The default rates are:

- £30 for one qualifying child;
- £40 for two qualifying children; and
- £50 for three or more qualifying children.

12 When the information needed to complete a maintenance calculation is provided, the new liability will come into effect. If the maintenance calculation is higher than the default rate, it will be backdated to the date on which the default rate took effect. Otherwise, the maintenance calculation will normally have effect from the date the information outstanding was supplied.

APPENDIX TWO

International comparisons of Child Support Systems

Australia	Canada	New Zealand
Scheme		
<ul style="list-style-type: none"> ■ Parents share in the cost of supporting their children according to their capacity; ■ Adequate support is available to all children not living with both parents; ■ Commonwealth involvement and expenditure is limited to the minimum necessary for ensuring children’s needs are met; ■ Work incentives for both parents to participate in the labour force are not impaired; and the overall arrangements are non-intrusive to personal privacy and are simple, flexible and efficient. 	<ul style="list-style-type: none"> ■ Establish a fair standard of support for children ensuring that after separation they continue to benefit from the means of both parents; ■ Reduce conflict and tension between parents by making the calculation of child support more objective; ■ Improve the efficiency of the legal process by giving courts and parents guidance in settling the levels of child support amounts and encouraging settlement; and ■ Ensure consistent treatment of parents and children who are in similar circumstances. 	<ul style="list-style-type: none"> ■ Children have the right to support (including financial support) from their parents, and parents have an obligation to provide support according to their capacity to provide, irrespective of whether or not they are living with their children; ■ State has a responsibility to ensure an adequate level of financial support for children and families and if necessary to supplement the financial support that parents can provide; and ■ State has interest in ensuring care-givers of children are not left without income. State also has a role through a fair child support system in ensuring parents meet their obligations to provide financial support, thereby limiting dependency on the State.
Formula-based administrative assessment. Must be simple, flexible and efficient.	Model based on an ability to pay with both parents having a financial responsibility to support their children. Use of Child Support Guidelines which are regulations that set the framework for the courts to determine the appropriate amount of child support. Included in the regulations are Child Support Tables (based on a formula) for each province and territory that provide a monthly child support amount based on the gross income of the paying parent, the number of children and residence of the paying parent.	Formula-based administrative assessment. Must be simple, flexible and efficient.
Encourage Private Collect arrangements wherever there are good payment habits. Minimise government Agency intrusion. 52.5 per cent of parents collect privately.	Some provincial territorial maintenance enforcement programs (MEPs) discourage direct payments, while other MEPs allow for it.	Custodial parents in receipt of a Domestic Purposes Benefit must apply for child support or their benefit will be reduced. Custodial parents who are not in receipt of a Domestic Purposes Benefit may apply for child support through Inland Revenue or make private arrangements outside of Inland Revenue.

United Kingdom (new cases)

Children’s Rights and Parents’ Responsibilities – the title of the white paper stresses the new contract. Three principles:

- putting children first;
- making sure the new system is fair and simple;
- rebuilding confidence in the child support system.

Formula-based administrative assessment.

Encourage private payment arrangements wherever there are good payment habits. Minimise government Agency intrusion.

United States

- Parents support their children according to their capacity to pay.
- Children receive the support due to them (unless receiving public assistance).
- Some government support for sole parent families – such as through the Temporary Assistance for Needy Families (TANF) program and other assistance, although an emphasis is on parents meeting their responsibilities.

Program administered by the states under federal guidelines. Formula-based administrative assessment using a number of different formulae determined by states, or through the courts.

The United States does not have private collection arrangements like those in place in Australia and the UK.

Australia	Canada	New Zealand
<p>Scheme</p> <p>“Transfer” scheme where all money collected goes to the payee and the children.</p>	<p>“Transfer” scheme where all money collected goes to the payee and the children. Where the payee is on social assistance, support payments are used to repay those benefits on a dollar for dollar basis.</p>	<p>Majority of child support payments are paid to the Crown to repay benefit payments (almost 56 per cent of total collections were repaid to the Crown in 2004-05).</p>
<p>Child Support Percentages</p>		
<p>Minimum liability of AUS\$5 per week for all eligible payers, regardless of income. (In July 2006 this will increase to just over AUS\$6 per week and be indexed to increase as per the CPI). Child Support percentages after exempt income:</p> <ul style="list-style-type: none"> ■ 18 per cent for one child; ■ 27 per cent for two children; ■ 32 per cent for three children; ■ 34 per cent for four children; and ■ 36 per cent for five or more children. 	<p>A mathematical formula using gross income and federal, provincial and territorial tax rules generates the Child Support Table amounts. Amounts vary according to the income of the paying parent, the number of children and the province in which paying parent resides.</p>	<p>Minimum liability of NZ\$14 per week for all liable parents, regardless of income. Child Support percentages after living allowance has been deducted:</p> <ul style="list-style-type: none"> ■ 18 per cent for one child; ■ 24 per cent for 2 children; ■ 27 per cent for 3 children; and ■ 30 per cent for 4 or more children.
<p>Non Resident Parent’s Income</p>		
<p>Exempt Income Amount (EIA) = a living amount set aside for the payer. Amounts vary depending upon whether they are living alone, or whether they have children by the new relationship. In 2004, EIA:</p> <ul style="list-style-type: none"> ■ for no relevant dependants – AUS\$13,983; ■ with relevant dependants – AUS\$23,498 (additional Exempt Income increases when relevant dependent children reach set ages). 	<p>The paying parent’s income is used in the mathematical formula. Using the tax rules, no child support is generated below a “basic personal deduction” from federal tax rules. For using the Child Support Tables, this is income from all sources before tax. The income of the paying parent is then applied to the relevant provincial table to find the monthly amount which applies to the payer’s income based on the number of children.</p>	<p>A Living Allowance (equivalent to Social Welfare Invalid Benefit rates) is deducted from the Liable Parent’s taxable income. Those rates in 2006-07 were:</p> <ul style="list-style-type: none"> ■ single, no children \$NZ13,149; partnered, no children \$NZ17,772; ■ single/partnered, one dependent child \$NZ24,919; single/partnered, two dependent children \$NZ27,441; single/partnered, three dependent children \$NZ29,963 single/partnered, four or more dependent children \$NZ32,485.

United Kingdom (new cases)

Child support payments can be paid to the Crown to repay social security payments. Under the new scheme up to £10 per week of child support will pass through to resident parent where they have cooperated in locating the non-resident parent.

United States

Where a resident parent is in receipt of Temporary Assistance for Needy Families (TANF), child support amounts collected are repaid to the government, although a state may pass some support through to resident parent, with increased federal incentives to states for doing so starting in 2008. Amounts over and above TANF payments are passed through to the resident parent.

Note: this is a new provision passed into law February 2006.

Minimum liability of £5 per week for eligible payers earning £100 per week or less. Payers earning between £100 and £200 per week will pay on a sliding scale set out in a table. Payers earning £200 per week or more the following percentages apply to net income:

- 15 per cent for one child;
- 20 per cent for two children; and
- 25 per cent for three or more children.

Determined by states. Of the three formulae in use in the US, only the Garfinkel/Wisconsin formula uses percentages:

- 17 per cent for one child;
- 25 per cent for two children;
- 29 per cent for three children
- 31 per cent for four children; and
- 35 per cent for five or more children.

Allowance for relevant other children (children living with the non-resident parent) – amount not taken account of:

- 15 per cent of their net weekly income, if there is one relevant other child;
- 20 per cent of their net weekly income, if there are two relevant other children; or
- 25 per cent of their net weekly income, if there are three or more relevant other children.

The non-resident parent's income is treated differently, according to the formula used by the state. Under Williams/Colorado formula income of non-resident parent and resident parent is combined. There is no set living amount for non-resident parent – it is taken into account in the percentage tables. Under Garfinkel/Wisconsin model the living amount is set for the non-resident parent and the child support percentages are applied to income above the living amount. Under Melson/Delaware model a prescribed support payment is subtracted from each parent's income.

Australia	Canada	New Zealand
<p>Resident/Custodial Parent's Income</p> <p>Disregarded amount not considered but income exceeding this is considered in the liability. In 2005 the disregarded income amounts was AUS\$41,881.</p>	<p>In sole custody cases, the resident's parent's income is not used to determine the basic child support amount to be paid using the Tables. The resident parent's income is considered when the child is over the age of majority, the paying parent's income is over \$250,000, parents have split or shared custody, there are "special expenses", there is a claim of undue hardship, or one spouse was "acting in the place of a parent" (<i>in loco parentis</i>).</p>	<p>Custodial Parent's income is not considered.</p>
<p>Definition of Income Liability</p> <p>Calculated on taxable (gross) income which is defined as earnings before tax with some specific deductions and some specific additions.</p> <ul style="list-style-type: none"> ■ Overtime earnings are included in taxable income. ■ 25 per cent of liability may be paid as non-agency payments (NAPs). 	<p>In using the Child Support Tables, gross income is defined as earnings from all sources before tax with some specific deductions.</p>	<p>Calculated on taxable (gross) income which is defined as earnings before tax with some specific deductions. Overtime is included. For 2006-07 Child Support was based on taxable income for the year ended 31 March 2006 for salary and wage earners and the year ended 31 March 2005 for self employed people, capped at \$NZ100,157. NZ CSA has no NAPs arrangements.</p>
<p>Changes to Assessment</p> <p>May occur as a result of one or more of ten grounds for departure. Include exceptional expenses for:</p> <ul style="list-style-type: none"> ■ contact with children where the cost of contact exceeds 5 per cent of the child support liability; and ■ supporting another person where there is a legal duty e.g. supporting a severely disabled child in the second family. 	<p>Changes to the basic Child Support amount can occur only where there are:</p> <ul style="list-style-type: none"> ■ special expenses such as child care, health-related expenses or post-secondary education expenses and/or extraordinary expenses for extracurricular activities, or ■ claims of "undue hardship" such as where a parent has a second family or high access costs, and also has a lower household standard of living than the other parent's household standard of living. 	<p>Formula Assessments may be departed from as a result of one or more of ten grounds for departure.</p> <ul style="list-style-type: none"> ■ These include: High costs to enable the applicant to have access to child(ren) where the cost of contact exceeds five per cent of the child support liability; and ■ supporting another person where there is a legal duty e.g. supporting a severely disabled child in second family.
<p>Penalties</p> <ul style="list-style-type: none"> ■ Set to ATO penalty rates (18 per cent, 24 per cent on the amount due and payable). ■ Penalty of a fine or prison for false and misleading information. CSA has wide discretion to remit penalties. 	<p>Some MEPs charge interest on arrears while others have a "default fee" for missing regular payments.</p>	<p>Late payment penalties are set at 10 per cent of the payment where that payment has not been received by the 20th of the following month. A further two per cent incremental penalty on the balance outstanding every month. Limited discretion to remit penalties.</p>

United Kingdom (new cases)	United States
Parent with care's income is ignored.	Under Williams/Colorado formula income of both parents combined. Under Garfinkel/Wisconsin model RP income is ignored. Under Melson/Delaware model income of both parents considered.
Calculated on net income, defined as "the amount after tax and National Insurance has been deducted". Regular overtime earnings will be included but where the earnings are "truly irregular" they will not be included in the net income for child support. No child support cap.	Under Williams/Colorado model gross income is used. Under Garfinkel/Wisconsin model net income is used. Under Melson/Delaware model net income is used.
<p>Deductions Include exceptional expenses for:</p> <ul style="list-style-type: none"> ■ keeping in contact with the children; ■ supporting a severely disabled child in the second family; ■ paying-off debts incurred for the child's benefits when the parents were living together; or ■ paying to maintain the child while the child is away at school (does not include tuition fees). 	No information available.
Late Payment Penalty (LPP) up to 25 per cent of maintenance due. Penalties of up to £1,000 for false information or for non-cooperation.	No information available.

Australia	Canada	New Zealand
<p>Care Arrangements & Liabilities</p> <p>Where each parent has one or more children from the relationship living with them, each parent’s liability will be calculated and difference only payable. Reduce liability where parents share care between 30-70 per cent.</p>	<p>Where each parent has one or more children from the relationship living with them (split custody), each parent’s liability will be calculated and difference only payable. Shared custody exists where parents have custody on at least a 60-40 percentage basis and the courts are given discretion to set the appropriate child support amounts.</p>	<p>Where the paying parent has a child for 40 per cent or more of the nights of the year, they are deemed to have shared care and any assessment of liability will recognise that.</p>
<p>Second Families</p>		
<p>Payer’s exempt income is increased where there is a natural or adopted child. The income for determining family allowance and child care assistance entitlements is reduced by 50 per cent of child support paid. Step child in a second family may be included when calculating the payer’s liability to the first family if a court order states they must be included.</p>	<p>There is no distinction made for “second families” in the basic formula or tables. The impact of second family obligations can be considered under the “Undue Hardship” provisions of the Child Support Guidelines.</p>	<p>Liable parent’s living allowance is increased when a dependent child (does not need to be their own) is part of their household.</p>
<p>Location</p>		
<p>CSA located in Department Human Services since October 2004 and has a close working relationship with both Family and Community Services and Indigenous Affairs (FaCSIA), Centrelink and ATO. Computer system is part of ATO system. Linked to government’s family policy.</p>	<p>The provinces and territories have responsibility for the administration of family justice in Canada. Determination of child support is either agreed upon by both parents or adjudicated and set by the courts. Child support under <i>Divorce Act</i> orders must be determined by a judge in a Superior Court in the province or territory. Child support under provincial family law (where parents were never married or are married and separating but not divorcing) may be determined by a provincial or superior court. The MEPs are a separate entity in each province and territory and are organized either through single offices or main offices with some branch offices. At the federal level, the Department of Justice Canada has legislative responsibility for the <i>Divorce Act</i>, the <i>Federal Child Support Guidelines</i> and two federal enforcement acts that provide assistance to the provincial and territorial efforts to enforce payment of child support obligations.</p>	<p>Child Support is a business unit within Inland Revenue (New Zealand’s tax department). Prior to 1992 it was located in the Department of Social Welfare.</p>

United Kingdom (new cases)

Where both parents each have one or more children from the relationship, each parent's liability will be calculated and the difference only will be payable. Reduce the child support liability by 1/7th for each night of the week that the child spends with the non-resident parent. Where the non-resident parent is on benefits and the child spends at least one night per week with the non-resident parent, the non-resident parent's liability will be nil.

United States

No information available.

A proportion of non-resident parent's income is deducted for each child in the payer's second family (including step children). The c.s. percentages are then applied to the remaining income for support of children in the first family. The scheme will slightly favour the children of first families.

No information available.

CSA located in Department for Work and Pensions.

At the federal level child support the Office of Child Support Enforcement (OCSE) is located in the Department of Health and Human Services. At the state level, child support location varies from state to state. In some states, like Florida, child support is located in taxation portfolio but in others it is located in the social assistance organisation. In some states, some child support functions are also located in the District Attorney's office.

Australia

Assessment

Approximately every twelve months but up to 15 months in some cases. Also assessment can be sooner where an estimate is given. The reduction in the payer’s income must be by 15 per cent or more. Assessments varied by:

- CSA staff;
- courts in some circumstances.

Average annual liability (2005):
AUS\$3,686 (all cases)

AUS\$5,534 (cases excluding those with liability less than AUS\$260)

CSA clients must take action to obtain child support if they receive Family Tax Benefit Part A (FTB A) either through Centrelink or the Australian Taxation Office (ATO) (i.e. there is a social security and maintenance nexus). Exemptions may be granted for a number of reasons including domestic violence. FTB part A is reduced where child support is received (threshold of AUS\$1,777.55 per annum in 2006).

Canada

A number of jurisdictions are setting up services to allow for the automatic recalculation of child support orders, usually on an annual basis. Variation is possible where there is a change in circumstances in the case.

Average Liability – 2002 median monthly child support amounts were:

\$351 for one child; \$622 for two children and \$818 for four children (all Canadian dollars)

All residents who are receiving social assistance benefits must apply for a child support order if eligible for one.

New Zealand

Automatic annual reassessment of child support. Liability generally lasts until the child’s 19th birthday, but can cease earlier in certain prescribed situations such as the child becoming financially independent or living in a relationship in the nature of marriage. Liability can be calculated on an estimated income. To be able to estimate, the liable parent’s income must be at least 15 per cent lower than their ‘lagged income’ (the income from the previous year which has been used in their assessment). Assessments varied by:

- CSA staff (administrative review);
- courts in some circumstances (departure order).

Average Liability (2004-05) – \$NZ49 pw. For the 2005 year, of the 142,707 paying parents with a current liability, 1,073 were assessed on the maximum income (\$93,522 per annum) and 67,917 were assessed to pay the minimum (\$688 per annum).

Custodial parents in receipt of a Domestic Purposes Benefit must apply for child support or their benefit will be reduced.

Custodial parents who are not in receipt of a Domestic Purposes Benefit may apply for child support through Inland Revenue or make private arrangements outside of Inland Revenue.

Payment Arrangements

All parents free to arrange means of payment between themselves as either private collect or CSA collect. Where they are in receipt of income support the payee must be in receipt of 100 per cent of child support liability or else risk losing part of their Family Tax Benefit Part A.

In most provinces and territories, most support orders from the courts are registered with the maintenance enforcement programs. Parents may make their own arrangements and opt out if both consent. Payment arrangements are either “pay through” or “pay to” the enforcement office. Direct payment also to be made with notification to the enforcement office. If the payee is receiving social assistance benefits, their order must be registered with the local enforcement program.

Custodial parents in receipt of a Domestic Purposes Benefit must apply for child support or their benefit will be reduced.

Custodial parents who are not in receipt of a Domestic Purposes Benefit may apply for child support through Inland Revenue or make private arrangements outside of Inland Revenue.

Money paid to Inland Revenue is either kept by the Crown as reimbursement for social security payments already received by the payee, or is transferred in full to the custodial parent when s/he is not in receipt of a benefit.

United Kingdom (new cases)

Every two years but before then if there has been a major change in either parent's circumstances. Reassess in the interim only where income varies by more than 5 per cent. A one month "dispute period" after the liability has been confirmed in writing to both parents. Assessments varied by:

- case workers in simple cases; and
- tribunal in more complex circumstances.

Average Liability Average liability under new scheme estimated to be £30.50

CSA clients must take action to obtain child support if they are on income support benefits. The £10 premium will provide resident parents with a greater incentive to do this. Child support paid to a parent will not affect entitlement to the new Working Families' Tax Credits (WFTC), as it does with the current Family Credit where only the first £15 was ignored. WFTC parents will no longer be obliged to apply for child support. Must be "good cause" for not pursuing child support e.g. risk to resident parent.

Parents are free to arrange means of payment between themselves if they are not on income support.

United States

Varies from state to state and is not just dependent on the formula used.

Average Liability – census figures for 2002 found average (mean) amount awarded was US\$5,370 and average amount received was US\$3,364.

Parents in receipt of TANF (social assistance) are required to work with state Office of Child Support Enforcement to obtain maintenance from the NRP.

Parents are free to make private payment arrangements if they are not in receipt of income support. Support orders are generally to be filed in a national case registry. Child support payments are typically made by NRP through wage withholding system. Payments must go to the child support organisation to repay TANF and other benefit, if applicable.

Australia	Canada	New Zealand
<p>Compliance Rate</p> <p>From the start of the Scheme until June 2005, 90.0 per cent of CSA collect liabilities have been paid. When private collect liabilities are included the compliance rate is 96.5 per cent.</p>	<p>There are no available national statistics on rates of compliance. For those MEPs currently able to participate in annual survey, the proportion of regular amounts due collected for 2003-04 ranged from 67 per cent to 92 per cent. The proportion of cases where the regular amount due was paid in full and on time ranged from 55 per cent to 78 per cent for the month of March 2005.</p>	<p>In 2004–05, 72.4 per cent of entitlements were collected, approximately 62 per cent on time in full. 86.3 per cent of child support due has been collected since inception of the scheme in 1992.</p>
<p>Payment collections</p> <p>Payments are collected by:</p> <ul style="list-style-type: none"> ■ Employer Withholding; ■ Tax Refund Intercepts Program; ■ Garnishment of funds from bank accounts and other amounts paid to the payer. ■ Deductions from social security payments. 	<p>Payments are collected by:</p> <ul style="list-style-type: none"> ■ The MEPs use pre-payment debit, wage withholding and garnishment of assets to collect payments directly. ■ The Department of Justice Canada provides a means to intercept federal monies owed to a debtor such as tax refunds, sales tax rebates, employment insurance payments and any other federal monies considered as income. 	<p>Payments are collected by:</p> <ul style="list-style-type: none"> ■ Automatic wage deductions; Voluntary manual (cash/cheque etc) payments; Income Tax refund interception; Deductions from other funds (bank accounts, trusts and superannuation payouts); and deductions from benefit payments.
<p>Stage 1 and Stage 2 cases operate concurrently. Scheme did not retrospectively cover court cases.</p>	<p>Pre-1 May 1997 cases coexist with orders or agreements made under the Child Support Guidelines (established on May 1, 1997).</p>	
<p>No fees for service.</p>	<p>There is no cost to initially registering or enrolling in a maintenance enforcement program (MEP) – the system is universal. Some fees are charged to the payment for non-payment. Federal fees are charged to the payer for each case.</p> <p>Parents are strongly encouraged to seek the advice of a lawyer when establishing a child support amount.</p>	<p>No fees for service.</p>

United Kingdom (new cases)

In 2005-06:

- old scheme - 75 per cent of cash collected.
- new scheme - 63 per cent of cash collected

United States

Census figures for the whole of the US show that, in 2002, approximately 59 per cent of resident parents were awarded child support, though many other parents report informal arrangements. 45 per cent of parents received the full amount due.

Payments are collected by:

- manual payments;
- direct debit;
- deductions from benefits; or
- standing order.

Payments are collected by:

- wage withholding;
- unemployment intercept;
- federal tax refund intercept;
- direct debit from bank (some states);
- interception of lottery winnings;
- forced sale of property.

Migration of old rules cases to new rules has been postponed.

All cases are covered by the same rules within a given jurisdiction.

No fees for CSA service.

Fees vary from state to state and depend upon whether the client is in receipt of TANF or not.

APPENDIX THREE

Methodology

1 We used a variety of methods in our examination of the Governance of the implementation of the Reforms and the impact on the customer of the business changes initiated in 2000. The main methods were:

Examination of key documents

2 We examined the agreed monthly minutes of each of the Programme Steering Committee meetings held since 1999. We identified when key decisions were made and examined the evidence used to make decisions during the development of the business restructuring.

3 We examined key external reviews including those conducted by PA consulting, FELD Group and Gartner. We also reviewed the Gateway reviews carried out by the Office of Government Commerce.

4 We also interrogated all available management information to assess the Agency's performance and worked closely with the Agency's statisticians to establish a clear view of the Agency's performance.

Review of the contract with EDS

5 We commissioned KMPG to review the contract between the Agency and EDS for the delivery of the CS2 system. We asked the reviewers to examine the contract in light of other PFI contracts of the time and identify where the contract could have been improved according to best practice at the time.

Review of 20 live child maintenance cases

6 We randomly selected 20 cases from the Agency's current live caseload using information produced from both computer systems. We selected eight from each of the CSCS and CS2 systems, as well as four cases being administered clerically. We reviewed all available case papers, in particular completed application forms, to determine the audit trail of the decisions made on cases.

We analysed the time taken to reach key stages in the process, for example a completed maintenance enquiry form, and identified the causes for any delays in the processing of the application and the final assessment. We did not examine the accuracy of the assessment made as a wider review of this is currently underway and will be reported on in the Comptroller and Auditor General's Account on the Child Support Agency's Client Funds.

Interviews with Agency caseworkers and senior operational managers

7 We visited two business units during the review (Falkirk and Bristol) to examine the impact of technical problems with CS2 on delivering the Agency's business. At each site we interviewed the operational managers responsible for these sites. We observed caseworkers using both CSCS and CS2 and interviewed staff with responsibility for maintain compliance and transitional case work. We used these interviews to identify what the main failings of the process were and how staff locally had tried to overcome these.

8 We interviewed officials within the enforcement directorate on how they recover the debt on cases where non-resident parents are totally non-compliant.

9 We also visited an operational unit staffed by EDS to test the functionality of CS2 in a live environment. We interviewed the unit managers from both the Agency and EDS.