



National Audit Office

DEPARTMENT FOR WORK AND PENSIONS
Child Support Agency –
Implementation of the Child Support Reforms

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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.

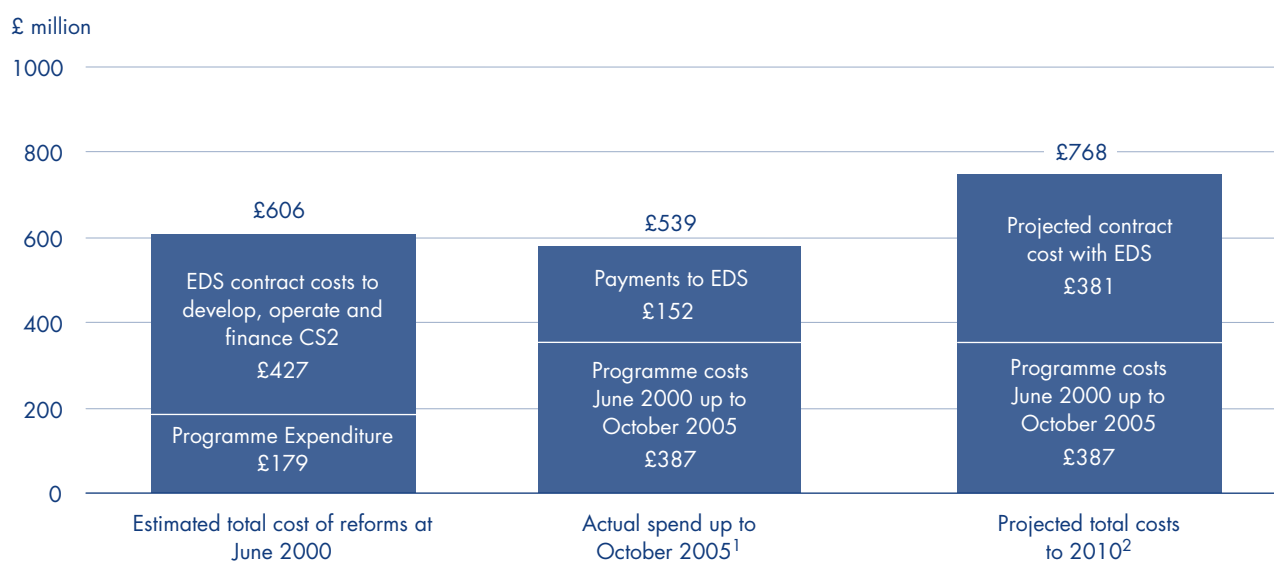
The Child Support Reforms have so far failed to deliver the expected improvements for customers

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>	