National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

HC 1793
SESSION 2010–2012

29 FEBRUARY 2012

Department for Work and Pensions

Child Maintenance and Enforcement Commission: Cost Reduction

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO, which employs some 880 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.

National Audit Office

Department for Work and Pensions

Child Maintenance and Enforcement Commission: Cost Reduction

Ordered by the House of Commons
to be printed on 28 February 2012

Report by the Comptroller and Auditor General
HC 1793 Session 2010–2012
29 February 2012

London: The Stationery Office
£16.00

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

Amyas Morse
Comptroller and
Auditor General

National Audit Office

24 February 2012

This report examines the Commission's cost reduction plans up to March 2015. We examined the potential impact of the new child maintenance scheme on the Commission's business plans, but we have not assessed whether it will improve service quality.

Printed in the UK for the Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
2478816 02/12 7333

Contents

The National Audit Office study team consisted of:

Samantha Hamilton, Ashleigh Jackson, Ciara Keenan, Andy Morrison, Alexis Pearson and Riaz Rahman under the direction of Phil Gibby

This report can be found on the National Audit Office website at www.nao.org.uk/cmec-2012

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Website: www.nao.org.uk

Twitter: @NAOorguk

Key facts

£560m
the Commission's budget in 2010-11

£117m
the Commission's forecast cost reduction in 2014-15

£44m
the projected overspending against the original budget agreed for 2014-15

Spending in 2010-11

£517 million	the Commission's gross spending in 2010-11
56 pence	the cost incurred by the Commission for each £1 collected from non-resident parents under its child maintenance schemes

Spending review plans

£443 million	estimated spending in 2014-15
£71 million	estimated income in 2014-15, from introducing fees
£12 million	the estimated savings in 2014-15, from reducing the workload after introducing fees

The new scheme

£275 million	the estimated cost of the new IT system
October 2012	target date for phase one of the new scheme

Summary

Introduction

1 Family breakdown is a significant feature of British life. Where parents cannot agree financial arrangements to support their children it can fall to the public sector to determine and, if needs be, enforce a settlement. Some 1.14 million separated families rely on the UK's child maintenance schemes. In 2010-11, the Child Maintenance and Enforcement Commission (the Commission) had a budget of £560 million from the Department for Work and Pensions (the Department) to support parents. In 2010-11, the Commission collected or arranged payments of nearly £1.2 billion.

2 When the Commission was established in 2008 it inherited major operational difficulties from the Child Support Agency (the Agency). In particular:

a The Commission has had to operate two separate child maintenance schemes using flawed IT systems. The Commission is implementing a new child maintenance scheme and associated IT system to improve service delivery.

b A significant minority of parents do not make any payments. By March 2010 (latest audited accounts) arrears from non-resident parents had reached £3.7 billion, although our financial audit of these arrears identified weaknesses in the underlying data. The Commission estimated that around £1 billion of the outstanding arrears may be collectable, of which it expects to collect £488 million.

3 There are also some important proposed changes in policy. Most significantly, the Government aims to encourage more parents to reach their own agreement rather than rely on the Commission. The Department published a Green Paper in January 2011 which included proposals to introduce application fees and charges on any child maintenance payments handled by the Commission.

4 The Commission must implement a significant programme of cost reductions. The 2010 spending review announced challenging spending reductions across government. As part of the HM Treasury settlement for the Department, funding for the Commission would reduce from £560 million in 2010-11 to £399 million in 2014-15. As part of the Public Bodies Bill, the Commission is also expected to lose its arm's-length status and become an operational division of the Department in summer 2012.

5 Against this background of operational, financial and policy changes, this report examines the Commission's cost reduction plans up to March 2015. We examined the potential impact of the new child maintenance scheme on the Commission's business plans, but we have not assessed whether it will improve service quality. Securing value for money from cost reductions involves generating long-term efficiency savings. We have therefore assessed value for money against the following criteria:

- The efficiency of existing child maintenance schemes.
- The Commission can demonstrate it is developing a suitable model for operating within the reduced funding.
- The Commission has taken all possible steps to deliver child maintenance cost-effectively.

Key findings

The efficiency of existing child maintenance schemes

6 **The efficiency of the child maintenance schemes has improved since 2006.** The existing child maintenance schemes were problematic from the beginning. The Agency could not process cases effectively and large backlogs had built up. We found that:

- An improvement plan, launched in February 2006, has increased the amount of maintenance transferred to nearly £1.2 billion by March 2011 (an increase of 38 per cent) and significantly reduced the backlogs of work.
- The Commission's spending has fallen from £610 million in 2008-09 to £517 million in 2010-11.

7 **Despite the efficiencies achieved, there are strong indications that costs remain too high:**

- In January 2011, the Government's Green Paper on the future of child maintenance acknowledged that the Commission's existing arrangements did not represent value for money to the taxpayer.
- The Commission spends approximately 56 pence for each £1 it collects for parents, while Australia spent 35 pence. There are several factors which might explain the difference, but it is our judgement that they do not fully do so, a view supported by other measures, such as the Commission handling fewer cases per staff member. This raises questions about the relative efficiency of the Commission.
- In comparison with the whole of the Department, the Commission spends a greater proportion of its funding on administration. Administrative spend for the Department represented 16.8 per cent of gross spending in 2010-11 while the costs in the Commission represented 19.5 per cent of the cost of its existing schemes.

8 **Further efficiencies depend on the Commission reducing overheads and streamlining how it manages existing cases.** The high cost of administering child maintenance is not wholly attributable to the problems with its IT systems. We found that:

- The Commission retained the Child Support Agency as a separate operational division, resulting in duplication of finance, HR, IT and corporate affairs functions. The Commission rationalised these separate functions in February 2011 and confirmed, in January 2012, that it had instigated a fundamental review of its central budgets to explore opportunities for further savings.
- The Commission has two head offices, in London and Leeds. In January 2012, the Commission moved its staff out of its London head office but it has yet to sublet the space to recover costs.
- There is scope to reduce the Commission's costs by rationalising its existing 70 offices. Its plan to reduce the number of offices to 64 is still far from the original design for the Child Support Agency of a head office and six processing centres.
- The Commission does not have reliable measures of productivity to monitor performance across its offices; proxy measures we used suggest that performance varies considerably and efficiencies could be made.

9 The potential reintegration of the Commission into the Department, from summer 2012, may be an opportunity to cut administrative costs significantly.

The Commission's plans to operate within the reduced funds

10 **The Commission's plans for reducing costs up to 2014-15 fall short of the amount specified by the Department in response to the spending review.** The Department had reduced the Commission's budget from £560 million in 2010-11 to £399 million in 2014-15. During our examination the Commission forecast net spending of £438 million in 2014-15.

11 In January 2012, the Department notified us that the initial target had only been a "high-level, indicative allocation". Having worked through the Commission's plans in detail, it agreed that the Commission's costs in 2014-15 will necessarily be higher. It revised the Commission's budget for 2014-15 to £443 million, in advance of the fundamental review of the Commission's central budgets and finalisation of how the Commission will operate in the future. The change creates a £44 million shortfall in the Department's spending review plans that it will have to meet by additional savings elsewhere.

12 **Without adequate plans the Commission cannot demonstrate that it will meet the revised target.** As **Figure 1** shows, the revised budget comprises cash efficiencies of £151 million, income of £71 million and workload reductions of £12 million. Once offset by the estimated impact of inflation and spending on developing and implementing the new child maintenance scheme, the net impact is a reduction in funding of £117 million. The Commission has identified cuts it will make to budgets to achieve cost reductions, but it does not yet have plans for how to realise the savings. The Commission is still developing a detailed model of how it will operate and not having detailed plans increases the risk that it will fall short of its target.

13 **The Commission is relying on introducing fees, which is high risk and the expected shortfall in its cost reductions could therefore be much greater.** The Commission plans to raise income from 2013 through introducing an upfront application fee and a surcharge on any money it transfers between parents. There is considerable uncertainty from the Commission's customer insight analysis on how parents might respond to fees. The Commission's own estimates indicate that income in 2014-15 could fall short of the £71 million forecast by £30 million, or exceed it by £4 million. There is little flexibility in 2014-15 to take corrective measures before the end of the spending review.

14 Customer insight analysis indicates a low willingness to pay fees. The Commission's forecast of fee income assumes a higher proportion of parents will pay fees than implied by the customer research. While there is always likely to be a difference between the stated preference of customers and how they actually behave once a change is brought in, it is difficult to predict the exact nature of the response in advance with any confidence. To this extent, it is difficult to substantiate the reasonableness of the assumptions made.

Figure 1
Forecast cost reductions 2014-15

	Savings or costs (£m)	Total (£m)
Baseline budget in 2010-11		**560**
Less reductions		
Forecast income	-71	
Workload reductions	-12	
Efficiencies	-151	
Subtotal		**-234**
Add cost increases		
Inflation	55	
New scheme investment	48	
New services	14	
Subtotal		**117**
Forecast budget in 2014-15		**443**

Source: Commission data

15 The plans rely heavily on introducing the new child maintenance IT system. Ministers have stated that introducing fees depends on the Commission implementing a new, effective child maintenance scheme from October 2012. The Agency did not have a good track record in delivering IT systems. Our analysis suggests that the Commission could repeat some of the Agency's mistakes. The original plans were optimistic and the Commission lacked sufficient internal resources to understand fully how the IT system would be developed. From mid-2011, the Commission reverted from an 'agile' (iterative) development approach to a more traditional approach to developing systems and strengthened governance arrangements. It is not yet clear whether such remedial actions have sufficiently addressed the earlier problems. An external review rated the programme as 'amber' in July 2011. The Commission must undertake critical testing in parallel with programme delivery to meet the implementation date.

16 The Commission cannot afford the cost of its new child maintenance scheme to increase further. In January 2011, the Commission reported to its audit committee that the forecast cost of the new IT system was £149 million. By October 2011, it reported that the forecast cost was £275 million. The Commission reclassified the work involved in developing its IT system and its wider change programme between these dates. It has estimated that £27 million of the difference was due to cost increases but we cannot substantiate this amount.

17 The Commission's plan to implement a new child maintenance scheme has no contingency. The Commission is relying on implementing a new child maintenance scheme and introducing fees to meet its requirements under the spending review. The Commission has no clear strategy about what other actions might be needed if its projections prove optimistic.

Further steps the Commission might take to deliver child maintenance more cost-effectively

18 There has been insufficient scrutiny of the business case for the new scheme. The Commission has not updated its business case for the new scheme to reflect the impact on customers of the proposed fees and charges. Our examination of the Commission's forecasts found that, without fee income, the new scheme is estimated to cost £4.8 billion between 2011 and 2021, compared with £4.6 billion for continuing with the existing schemes. The projected operational savings over the ten-year period have fallen by more than £700 million since June 2010.

19 In addition, the estimates do not take account of all risks and costs to government. The Commission has not quantified the cost to government of any increase in the number of families going to court to agree child maintenance arrangements instead of paying fees for the Commission's services. Nor do the estimates take account of the risk of failure with existing IT systems.

20 **The success of the Commission's cost reduction plans will depend upon changing the culture of the organisation.** The Commission is only starting to demonstrate a cost conscious culture. The arrival of the new Commissioner in June 2011 has led to a greater sense of urgency for the need to reduce costs. In January 2012, the Commission confirmed it had instigated a fundamental review of its central budgets.

21 **We identified a number of options to reduce costs that the Commission has not yet explored sufficiently.** The Commission could learn from Jobcentre Plus which has sought to improve the efficiency of its benefit processes through continuous improvement (lean reviews) and rolling out a pilot for workload management, which reduced staff numbers by 15 per cent. Other options for cost reduction include estate rationalisation and exploring the outsourcing of functions to the private sector or other government departments. The Commission noted that it had explored these options in discussions with ministers, but it could offer no evidence to demonstrate that it had sought to quantify the potential costs and benefits of such options.

Conclusion on value for money

22 The Commission has improved its cost-effectiveness since 2006. The spending review plan to reduce the Commission's funding from £560 million in 2010-11 to £399 million in 2014-15 was challenging but achievable. Subsequent changes to the Commission's budgets increased its target for 2014-15 by £44 million to £443 million. The Commission's current plans for meeting this revised target depend largely on the successful implementation of two major changes: a new charging regime for separated families; and a new IT system.

23 In the light of the risks facing both the charging and the IT reforms, we do not believe that the Commission can secure value for money without properly considering alternative options for restructuring, adequately controlling its IT development and using performance measurement to improve productivity. We therefore welcome the approach of the new Commissioner, who has instilled a greater sense of urgency across the organisation to improve efficiency and drive down the administrative cost of child maintenance still further.

Recommendations

24 We make the following recommendations:

On the efficiency of existing child maintenance schemes

a **The cost of administering child maintenance is high.** The Commission should explore options to reduce costs further. In particular, it should examine the costs and benefits of:

- implementing the process management initiatives used by Jobcentre Plus and other good practice examples;
- rationalising its central directorates; and
- reducing its estate to around six main offices.

b **The potential transfer back into the Department will be an opportunity to reduce corporate overheads further.** The Commission should use the potential transfer back into the Department to develop plans to reduce unnecessary costs and close its central directorates.

c **The Commission cannot afford the cost of developing its new child maintenance scheme to increase further.** The Commission should develop a suitable contingency plan in case further problems materialise.

The Commission's plans to operate within the reduced funds

d **The Commission relies on income from charging for its new child maintenance scheme, which is high risk and could result in a greater shortfall in funds.** The Commission should revise its target operating model – its vision of the organisation – by putting more emphasis on cutting the costs of systems and procedures.

The steps needed to deliver child maintenance more cost-effectively

e **The Commission will need to develop a more cost conscious culture.** The Commission should:

- revise its plans to reduce overheads further and brief staff on the need to reduce the cost of existing child maintenance schemes; and
- develop productivity measures to drive further efficiencies.

f **The Commission has not yet adequately explored more radical options to deliver services cheaper.** The Commission should look at the costs and benefits of other options for delivering child maintenance services to identify if alternative and more cost-effective delivery channels exist. It should consider options such as further outsourcing of services to the private sector and transferring functions to other parts of government.

g **There has been insufficient scrutiny of the business case for the new scheme.** The Commission should strengthen how it monitors progress, when implementing the new child maintenance scheme, by:

- updating the business case for HM Treasury to review, to determine whether it is still fit for purpose; and
- including in the business case the costs and benefits of different components of the new scheme and IT.

h **It is not clear how the Commission will realise savings from reducing workload.** The Commission should develop plans to reorganise services and reduce staff numbers. The plans should cover different scenarios of workload.

Part One

Introduction

1.1 Family breakdown is a feature of life in Britain today, with around 300,000 families separating each year. Parents are no longer together in an estimated 2.5 million families and around a quarter of all dependent children live in lone parent households. Parents who leave remain responsible for financially supporting their children. Where parents cannot agree financial arrangements, it falls to the public sector to determine and, if necessary, to enforce a settlement.

1.2 The Child Maintenance and Enforcement Commission (the Commission) is an arm's-length body tasked with supporting parents to agree financial arrangements for their children. The Department for Work and Pensions (the Department) funds the Commission. As part of the Public Bodies Bill, the Commission is expected to lose its arm's-length body status and become an operational division of the Department in summer 2012.

1.3 This part of the report examines:

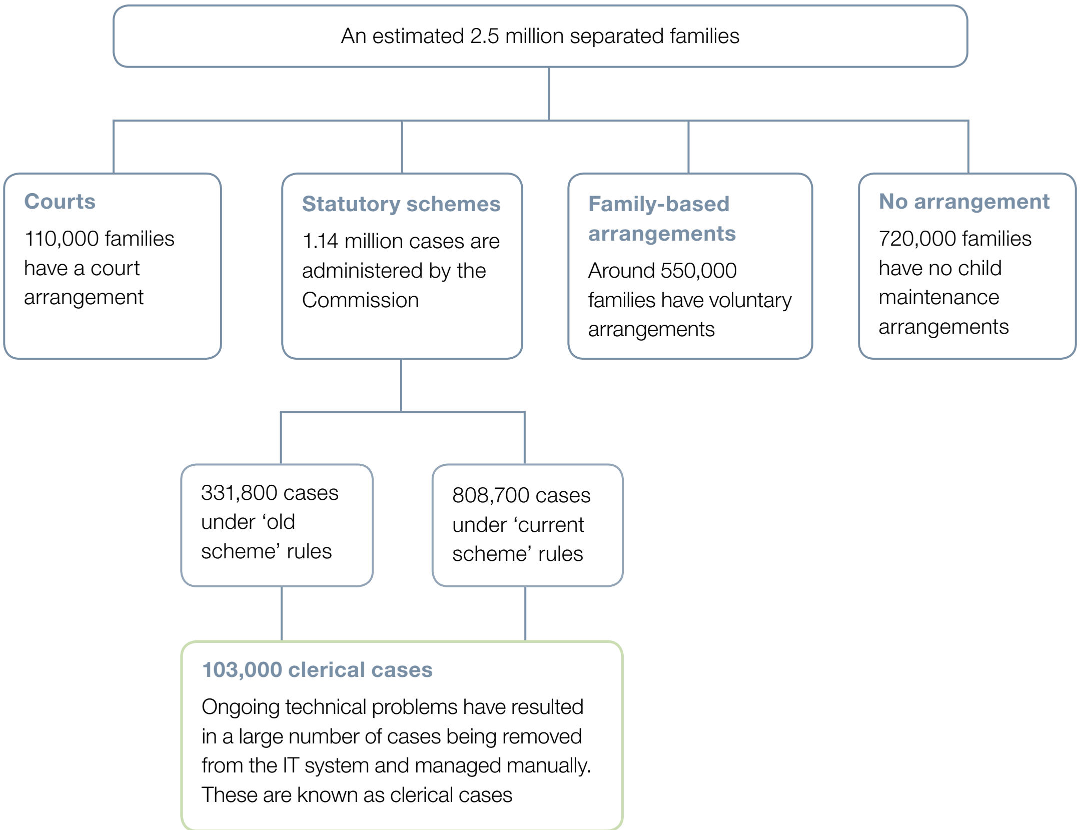
- the role of the Commission;
- the impact of the spending review on the funds available for the Commission; and
- the scope and methodology of our examination.

The role of the Commission

1.4 The Commission seeks to maximise the number of effective child maintenance arrangements for children who live apart from one or both of their parents. This involves supporting parents to reach family-based arrangements and offering a statutory scheme they can use instead. **Figure 2** shows that in 2011, some 1.14 million (46 per cent) separated families used its statutory schemes, and an estimated 550,000 had family-based arrangements. Some 720,000 families had no child maintenance arrangements in place. In 2010-11, the Commission spent around £478 million[1] running its child maintenance schemes and supporting parents to make their own arrangements.

1 The Commission's gross administrative cost of £517 million in 2010-11 also included spending on developing a new child maintenance scheme and staff exit costs.

Figure 2
Outcomes for arranging child maintenance



NOTE

1 Figures and estimates represent the position as at December 2011.

Source: Commission's Quarterly Summary of Statistics, December 2011 and Impact Assessment of Strengthening Families Green Paper, January 2011

1.5 In 2010-11, nearly £1.2 billion of maintenance was transferred between parents using the Commission's schemes. Of 1.14 million non-resident parents registered with the schemes in the quarter to December 2011, some 680,000 parents made payments. In a further 260,000 cases there was no liability to pay because the non-resident parent shared the childcare responsibilities, or was in full-time education, in prison, or lived overseas. In some 190,000 cases, however, the non-resident parent did not make any payments through the Commission's schemes.[2]

2 The amounts do not total 1.14 million due to roundings.

1.6 The Commission was formed in July 2008 to replace the Child Support Agency (the Agency). From its inception in 1993, the Agency had major operational difficulties; it had underestimated the difficulties in tracing non-resident parents, calculating amounts due and securing money owed. The difficulties led to the accumulation of a large backlog of unprocessed cases and debt owed to parents with care. The Agency introduced a second simplified scheme in 2003, supported by a new IT system to remedy the issue. However, our audit of those reforms by the Agency confirmed that they had cost £539 million and failed to deliver improvements.[3]

1.7 The Commission has had to operate the 'old' and 'current' schemes in parallel (Figure 2). Due to flaws in the IT systems for each scheme, some 100,000 cases have had to be processed separately by clerical staff at a cost of £48 million. The Commission is developing a new child maintenance scheme and associated IT system to replace the two existing schemes.

The impact of the spending review on the funds available for the Commission

1.8 The June 2010 budget and the spending review in October 2010 announced significant spending reductions across government departments. The Department has to reduce running costs by £2.7 billion in cash terms by March 2015. The Department's cost reductions affect the funding available for the Commission.

1.9 The Commission's funding will reduce from a baseline budget of £560 million in 2010-11. The Department had reduced the Commission's budget from £560 million in 2010-11 to £399 million in 2014-15, equivalent to a cash reduction of £161 million. Once forecast inflation is taken into account, the cut amounts to a real cost reduction of more than 35 per cent. During our examination, the Commission forecast net spending of £438 million in 2014-15. In December 2011, as part of a ministerial review, the Department revised the Commission's 2014-15 budget to £443 million. In January 2012, the Department concluded that the initial target had only been a "high-level, indicative allocation". Having now worked through the Commission's plans in detail it agreed that the Commission's costs in 2014-15 will necessarily be higher. The change creates a £44 million shortfall in the Department's spending review plans that it will have to meet by additional savings elsewhere. **Figure 3** shows the original and the revised reductions for the Commission.

3 Comptroller and Auditor General, *Child Support Agency – Implementation of the Child Support Reforms*, Session 2005-06, HC 1174, National Audit Office, June 2006.

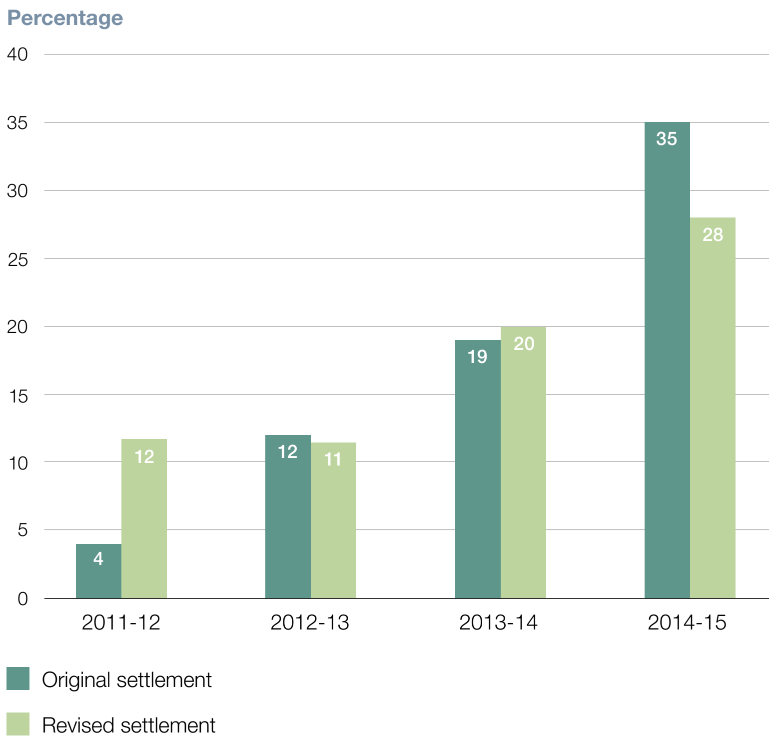
Scope and methodology

1.10 This report examines the adequacy of the Commission's response to the reductions in its funding specified by the Department. It covers:

- the Commission's past performance in improving efficiency (Part Two);
- the Commission's plans for how it will operate (Part Three); and
- other options for cost reduction (Part Four).

1.11 Our examination is based on the premise that securing value for money from cost reductions involves more than just implementing planned cuts, and that spending cuts should stimulate long-term efficiency savings. We have reviewed the Commission's current business plans and the potential impact of the new child maintenance scheme on its funding. We have not examined whether the new scheme may improve service quality, such as the functionality of the new IT system to deliver intended requirements. Our methodology is summarised at Appendix One.

Figure 3
Real term percentage cost reductions



Source: Commission data

Part Two

Past performance in improving efficiency

2.1 To assess whether the Commission's existing services are cost-effective, we examined:

- the progress made in improving services; and
- what steps it has already taken to reduce costs.

Progress in improving services

2.2 In December 2009 we reported on the Commission's progress in remedying the earlier problems with the child maintenance scheme.[4] The Agency had introduced a three-year operational improvement plan from 2006, at a total cost of £321 million. Most of the operational targets within the operational improvement plan had been met or exceeded.

2.3 **Figure 4** shows there have been noticeable improvements in how the Commission manages cases. Between March 2006 and 2011 backlogs of work have reduced significantly, and 89 per cent of new applications were processed within 12 weeks, benefiting 867,800 children.

2.4 The majority of stakeholders we interviewed also thought the operational improvement plan had improved performance and increased compliance, although they were critical about the standards of customer service. Common concerns included slow speed and timeliness in responding to queries, numerous staff contacts in managing a case and unfairness in interactions with non-resident parents.

2.5 The amount of maintenance collected and transferred by the statutory schemes to parents with care has increased. **Figure 5** shows maintenance collected and transferred has exceeded £1 billion since 2007-08 and by 2010-11 the Commission collected and transferred almost 38 per cent more than in 2005-06.

2.6 Despite efforts to improve guidance, simplify complicated rules and provide targeted training, administration of child maintenance is overly complex. The guidance manuals are considerable, they contain about 10,000 pages and the problems with the IT systems have compounded the difficulties in calculating the amounts due.

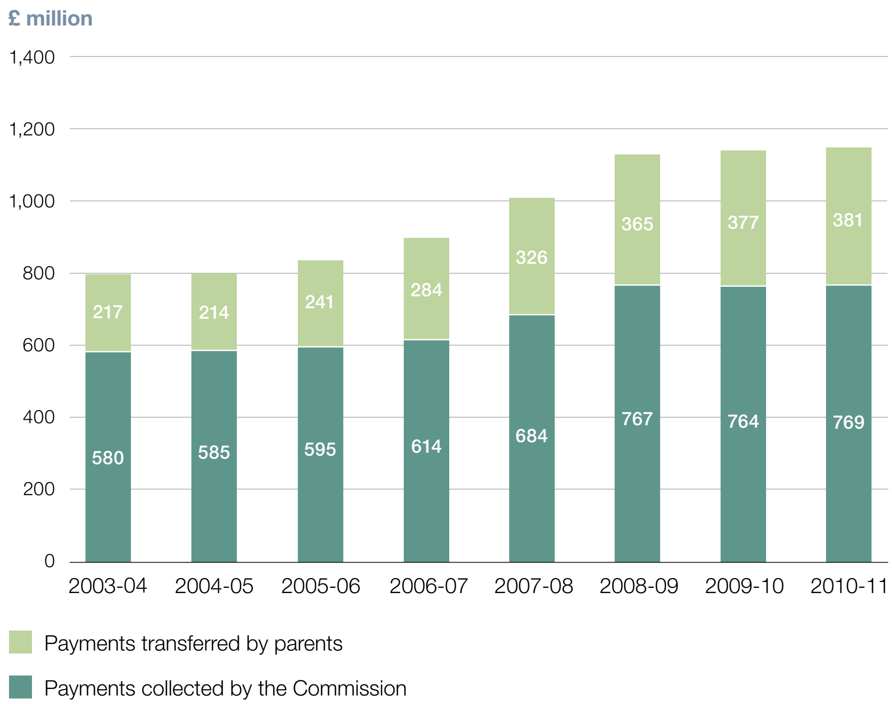
4 National Audit Office, *Performance of the Child Maintenance and Enforcement Commission,* Memorandum for the Work and Pensions Select Committee, December 2009.

Figure 4
Service delivery improvements

	As at March 2006	As at March 2007	As at March 2008	As at March 2009	As at March 2010	As at March 2011
Number of children benefiting from statutory schemes	623,000	683,300	749,300	780,500	845,700	867,800
Percentage of cases with a liability receiving maintenance	63%	65%	67%	71%	77%	78%
Percentage of new applications cleared within 12 weeks	53%	61%	77%	82%	86%	89%
Uncleared scheme applications	277,400	184,400	121,800	43,500	18,200	14,400

Source: Commission's annual reports and accounts and quarterly summaries of statistics

Figure 5
Maintenance collected and transferred



NOTES

1 Parents can opt to manage payments themselves provided they are new customers or have a regular payment history.

2 Values of payments transferred by parents are estimated amounts and assume 100 per cent compliance on the grounds that the parent with care would report non-compliance.

Source: Commission's Quarterly Summary of Statistics, December 2011

2.7 The accumulation of arrears of payments due from non-resident parents has not been resolved. This debt amounted to £3.5 billion in 2006 and £3.7 billion by March 2010. Our financial audit[5] of these arrears identified weaknesses in the underlying data. Individual arrears balances were misstated due to inaccurate maintenance assessments and processing of arrears by caseworkers since the start of the statutory schemes. We estimated that these issues have led to overstatements of £0.2 billion and understatements of £0.3 billion within the reported balance of £3.7 billion. The Commission estimated that around £1 billion of the outstanding arrears is potentially collectable, of which it expects to collect £488 million.

Progress in reducing costs

2.8 The cost of administering child maintenance increased between 2003-04 and 2008-09 but has since fallen (**Figure 6**). Spending on child support services is now around the same level as 2005-06, representing a real decrease when inflation is considered.

2.9 The reduction in 2010-11 reflected lower than expected spending on new services, such as developing the new scheme; halting further work on existing IT systems; renegotiating existing contracts; and a moratorium on first class travel, overtime and advertising.

2.10 There are strong indications that costs remained high in 2010-11, the baseline for the spending review reductions. In January 2011, the Green Paper on the future of child maintenance noted that existing arrangements of the statutory schemes did not represent value for money to the taxpayer.[6] In July 2011, the Government's response to the consultation also referred to the child maintenance system as "flawed and expensive".[7]

2.11 Australia has the closest comparable scheme to the Commission. On the basis of its operating costs of £478 million and maintenance of £1,150 million, it costs the Commission 42 pence for each £1 of maintenance paid to parents with care in 2010-11. This compares with 15 pence for each £1 transferred by the Australian Child Support Agency in 2008-09 (latest public data available).

2.12 In Australia around half of the child maintenance cases make payments directly between parents, compared with around 15 per cent in the UK. Taking this into account, we estimate the Commission spent approximately 56 pence for each £1 it collects on behalf of parents, while Australia spent 35 pence. There are several factors which might explain the difference, which include:

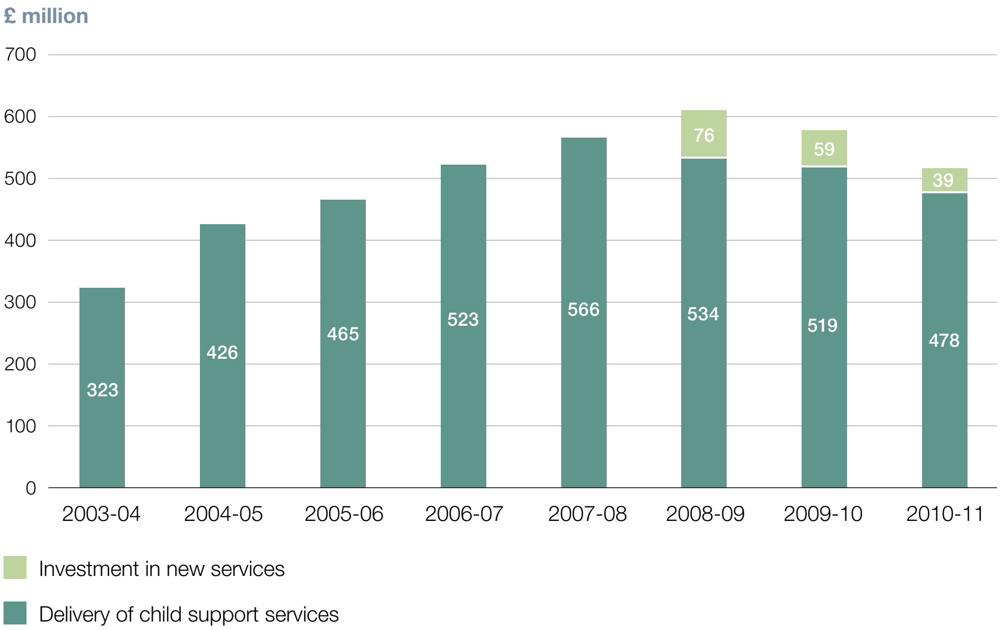
a child maintenance obligations tend to be significantly higher for Australian parents;

b the Australian Child Support Agency can collect maintenance from tax rebates and has reciprocal arrangements with other child support agencies to collect maintenance if non-resident parents move overseas; and

c demographic and socio-economic variations.

5 The Commission, *Client Funds Account – Statutory Maintenance Schemes 2009-10,* April 2011.
6 Department for Work and Pensions, *Strengthening families, promoting parental responsibility: the future of child maintenance,* Cm 7990, January 2011.
7 Department for Work and Pensions, *Government's response to the consultation on strengthening families, promoting parental responsibility: the future of child maintenance,* Cm 8130, July 2011.

Figure 6
The cost of administering child maintenance



NOTES

1 Figure shows gross operating costs of the Agency/Commission. The Commission offsets income (£3.4 million in 2010-11) from the operating cost figures shown in its financial accounts.

2 In November 2008 the Commission became responsible for the Agency and some functions including operational policy from the Department. The cost data before 2008 excludes the cost of functions transferred from the Department.

Source: Commission's annual reports and accounts

2.13 However, it is our judgement that these do not explain completely the differences, which raises questions about the Commission's efficiency. This view is supported by other measures (**Figure 7** overleaf), for example, the Commission handles fewer cases per staff member, and on a cost-per-case basis the Commission is a third more expensive than Australia, though exchange rate differences can increase or decrease this ratio. Moreover, our analysis of the Commission's costs in 2010-11 indicates that overhead costs have remained higher than necessary and its operating processes were not efficient.

Overhead costs

2.14 As part of the spending review, each government body has had to categorise its non-capital spending as either programme (frontline activities) or administrative. This analysis categorised some overheads as frontline activity. The proportion of administrative costs reported by the Commission in 2010-11 was higher than for the rest of the Department. Administrative spend for the Department and its two agencies (Jobcentre Plus and the Pension, Disability and Carers Service) represented 16.8 per cent of gross spending while the costs in the Commission represented 19.5 per cent of the cost of its existing schemes.

Figure 7

Efficiency measures in administering child maintenance in Australia and the United Kingdom

	Australia			United Kingdom		
	Actively managed cases	**Cases not actively managed**	**Total caseload**	**Actively managed cases**	**Cases not actively managed**	**Total caseload**
Cost per £1 of maintenance transferred (£)	0.35	0.03	0.15	0.56	0.13	0.42
Cost per case (£)	444	56	238	622	109	417
Number of cases per full-time equivalent	115	962	216	94	501	139

NOTES

1 Cases not actively managed comprise cases where parents transfer maintenance payments directly between themselves and assessed cases that result in no maintenance liability.

2 Australian costs per case are based on an exchange rate of A$2.17 to £1, which was the average monthly exchange rate over the period July 2008 to June 2009.

3 The Australian cost per £1 of maintenance transferred is calculated using gross spending.

4 The UK cost per £1 of maintenance transferred is calculated on spending that excludes costs to develop new services.

5 There are no published data on the costs and staff in Australia attributable to transferring maintenance directly between parents. We have therefore estimated these figures by apportioning total staff numbers and costs by workload.

6 For the UK actively managed cases, the Commission estimates that it spent around £30 million assessing cases with no maintenance liability in 2010-11. We are unable to verify this figure. Assuming that half of the total 112,800 new applications received in the year returned no maintenance liability or similar, then the Commission's unit cost of assessing these cases was £530.

7 UK cases per full-time equivalent excludes some 900 clerical caseload contractors and the staff from Northern Ireland.

Source: Australian Child Support Agency 2008-09 Facts and Figures and Commission data

2.15 Our comparison of departmental data indicates the Commission's back-office costs were marginally more expensive than the Department in 2010-11. **Figure 8** presents two departmental comparators for finance and HR. Like-for-like comparison is difficult as the Department's spending includes grants and programme costs. Such activities do require oversight by Finance and HR, but possibly to a smaller extent than other activities. We have therefore calculated the costs for the Department including this spending (shown in the left-hand column entitled 'Total resource spend') and without it (the right-hand column entitled 'Administration spend').

2.16 The Commission's estate costs per full-time member of staff are lower than the Department's, but spending is still higher than necessary. The Commission has two head offices (Leeds and London), which together cost £13,000 per full-time employee. The cost reduces to around £9,000 once contractors are included. At £554 per square metre, the Leeds office is more expensive than the Commission's average price of £313 per square metre.

Figure 8
Comparison of Department and Commission corporate service benchmarks 2010-11

Category	Benchmark	Department for Work and Pensions Family		Child Maintenance and Enforcement Commission
		Total resource spend	Administration spend	
Corporate Services	HR as a proportion of total costs	0.9%	1.5%	1.6%
	Finance as a proportion of total costs	1.4%	2.3%	2.2%
Estates	Estate cost per full-time equivalent	£6,090		£4,170

Source: National Audit Office analysis of Commission and Departmental data

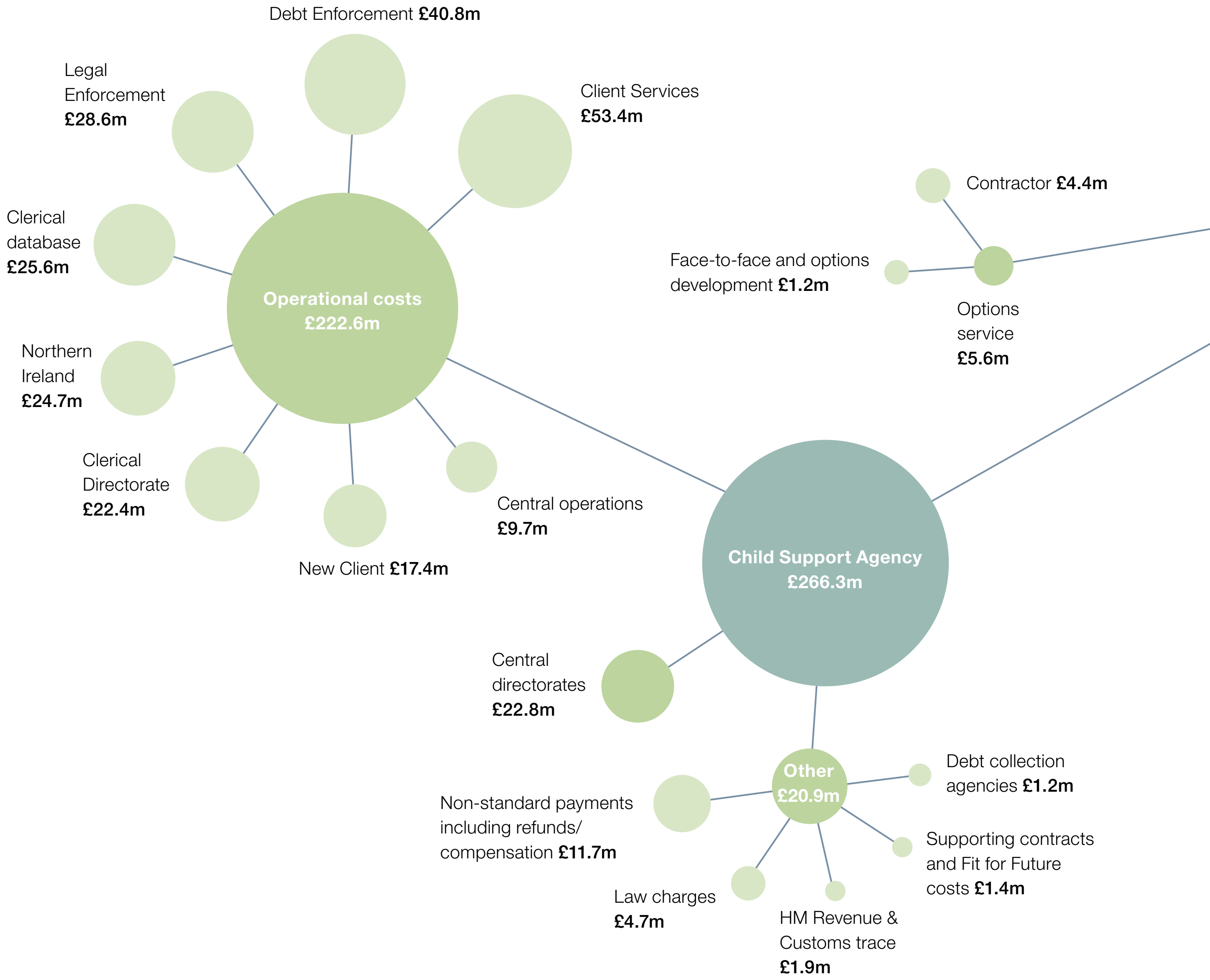
2.17 The London office has offered poor value for money because it has capacity for at least 90 people but has not accommodated more than 60 people since 2008-09. In January 2012, the Commission moved its staff out of its London head office and it plans to sublet the space to recover costs. The Commission expects to close a further five sites by 2014-15; however, the Commission still expects to use 64 offices.

2.18 We categorised the Commission's spending in 2010-11 to establish the main areas of cost (**Figure 9** overleaf). Frontline operations of the Agency and the Options service[8] amounted to £272 million, though this excludes supporting costs, such as estates and IT. The Commission noted that it began an efficiency programme in the existing schemes in summer 2011, expecting to reduce operational headcount by 8 per cent.

2.19 The main reason why costs were so high in 2010-11 was because the Commission had incorporated the Agency as a separate operational division. As a consequence, there were separate finance and HR functions for the Commission and the Agency. There were also separate directorates, such as IT and corporate affairs for the Commission's executive and its corporate services. Since February 2011 the separate divisions have been brought together. The Commission has noted that it was undertaking a fundamental review of central budgets in January 2012, to implement from April 2012, to make cost savings. The proposed integration of the Commission into the Department is also an opportunity to reduce costs considerably.

8 The Options service provides information on various ways of putting in place child maintenance arrangements.

Figure 9
Commission spending 2010-11



NOTES

1 Includes £11 million of capitalised investment, which is not included in total operational costs in 2010-11 financial statements.

2 The Commission begun to integrate its three divisions in February 2011.

Source: Commission 2010-11 management accounts information

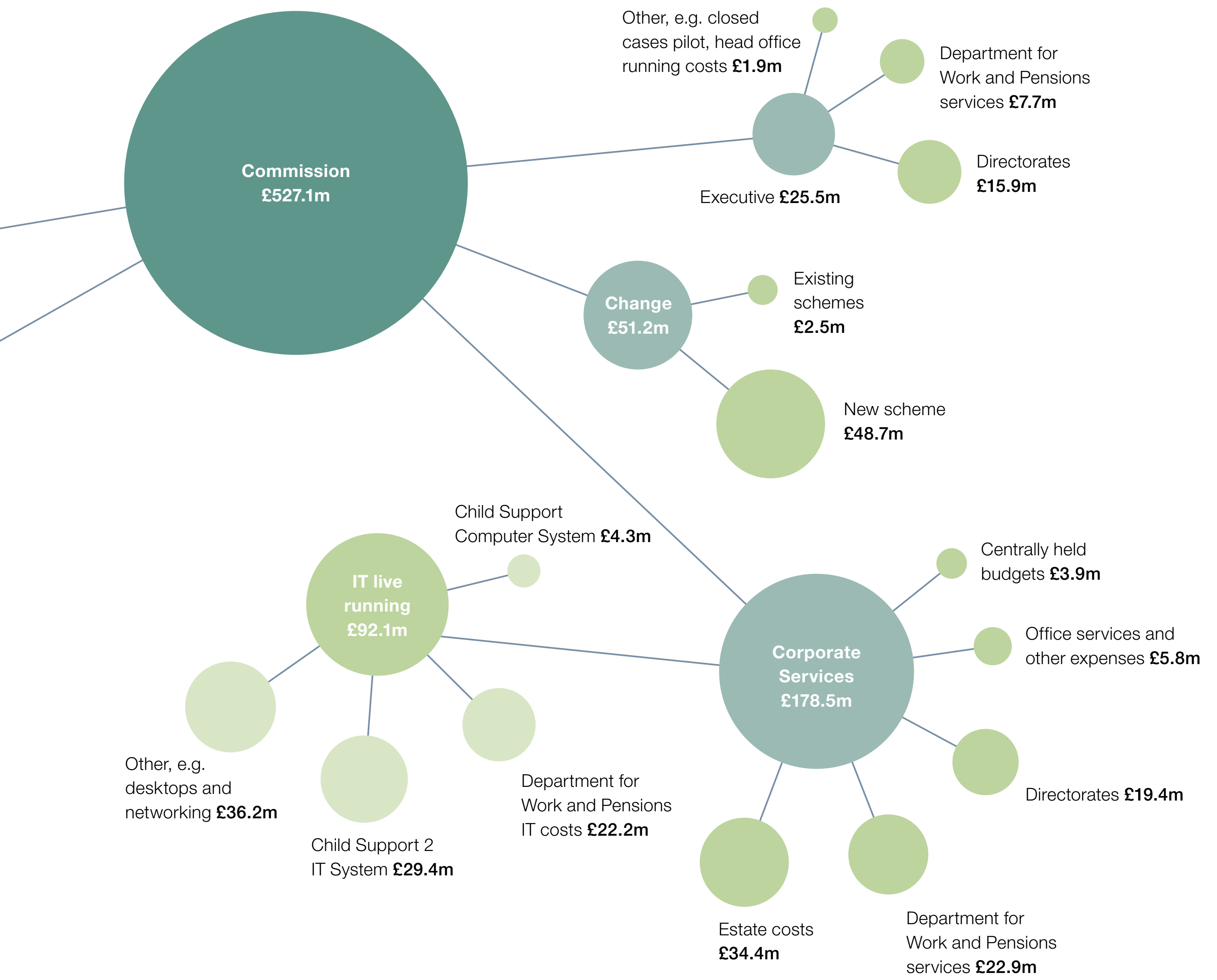
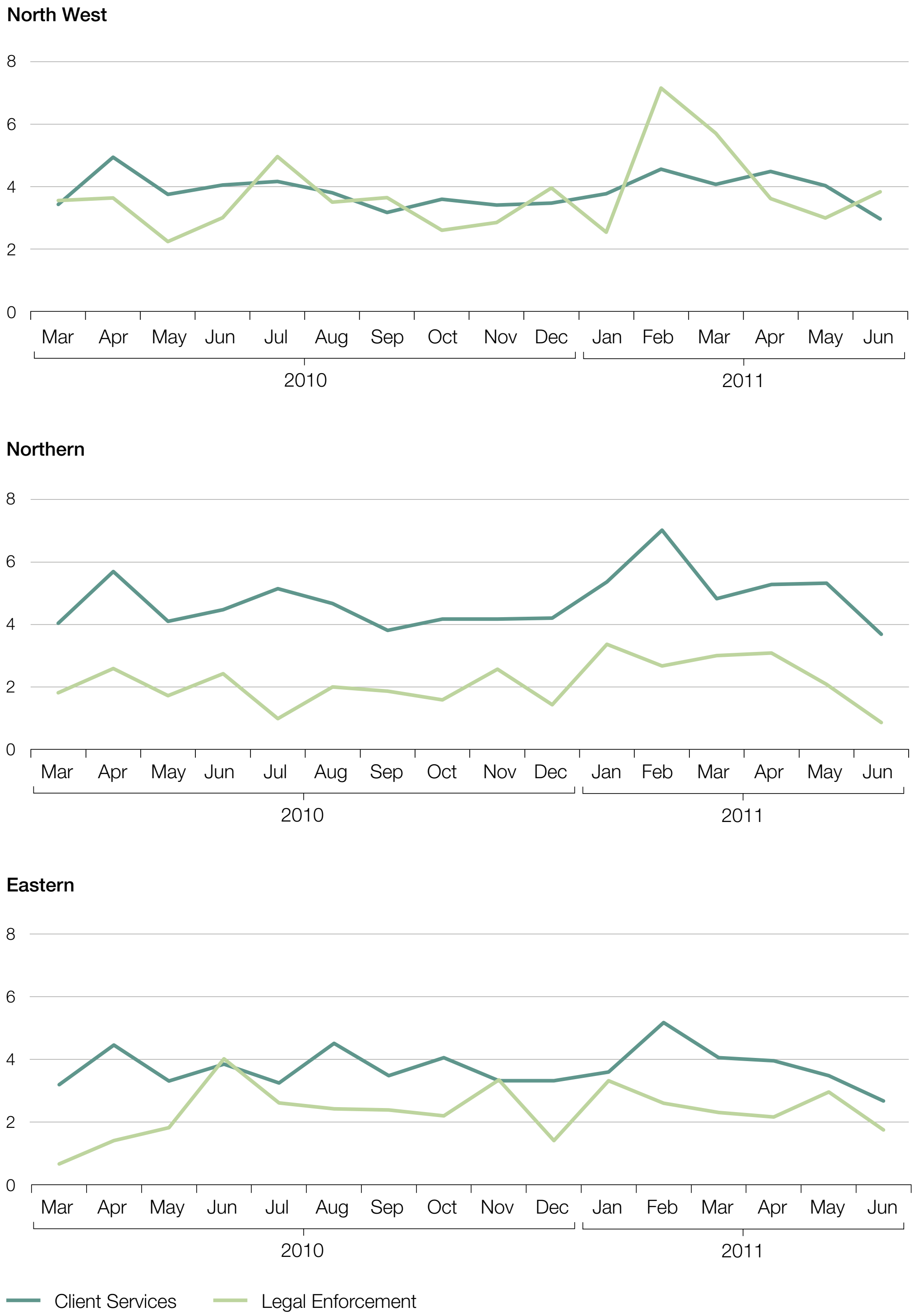
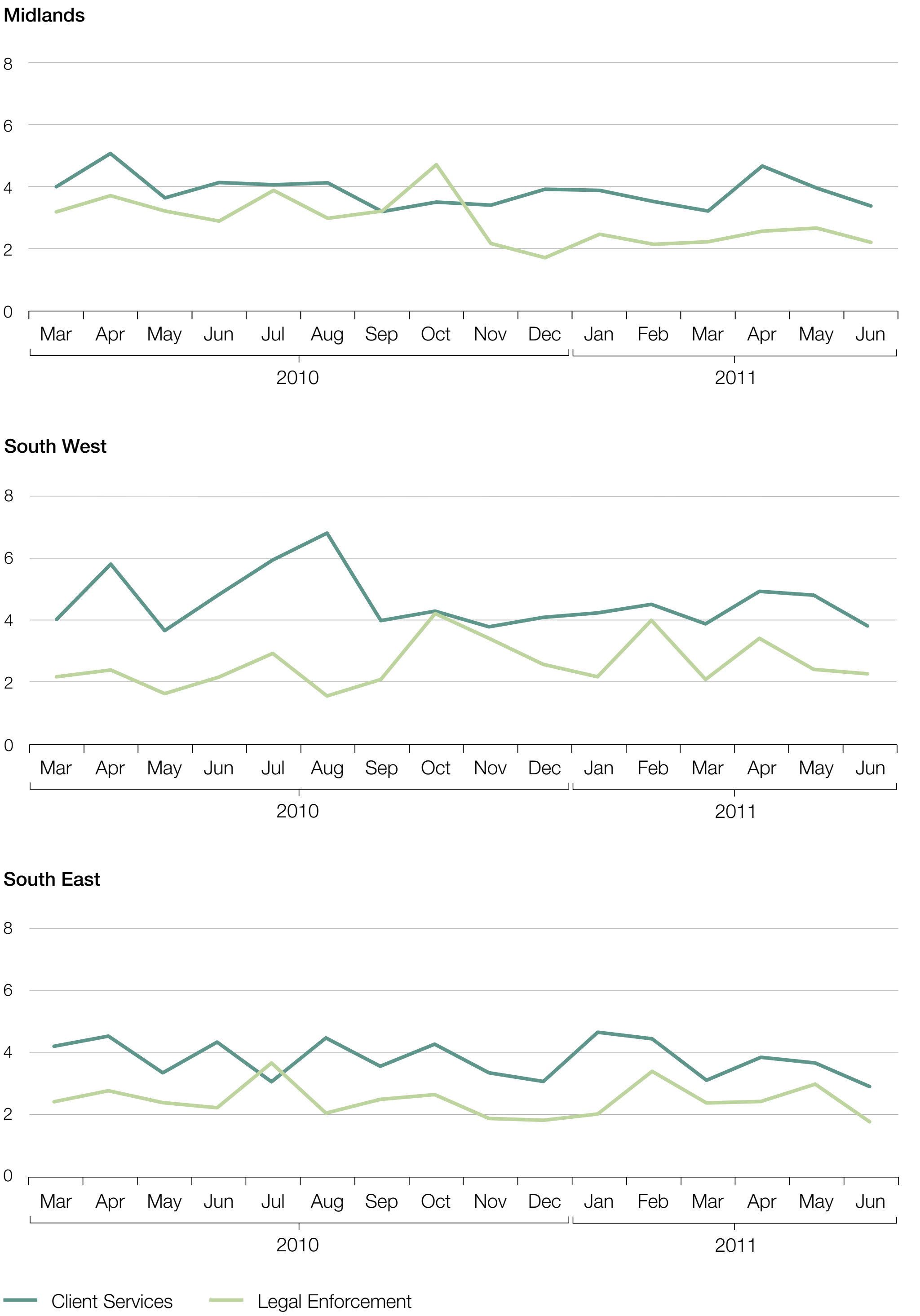

Commission £527.1m
Other, e.g. closed cases pilot, head office running costs £1.9m
Department for Work and Pensions services £7.7m
Directorates £15.9m
Executive £25.5m
Change £51.2m
Existing schemes £2.5m
New scheme £48.7m
Child Support Computer System £4.3m
IT live running £92.1m
Centrally held budgets £3.9m
Office services and other expenses £5.8m
Corporate Services £178.5m
Directorates £19.4m
Other, e.g. desktops and networking £36.2m
Department for Work and Pensions IT costs £22.2m
Child Support 2 IT System £29.4m
Estate costs £34.4m
Department for Work and Pensions services £22.9m

Figure 10
Productivity across regions (average daily task clearances per employee)





NOTE

1 Average daily task clearance per employee for client services and legal enforcement for period March 2010 to June 2011.

Source: National Audit Office analysis of Commission management information

Operating costs

2.20 The Commission has reduced staff numbers (full-time equivalents) from a peak of 11,386 in 2006-07 to 8,251 in 2010-11 as it has improved operational efficiency. Staff savings are partially offset by using around 900 contractors to process clerical cases (in 2006-07, there were some 600 contractors).

2.21 The Commission lacks direct, reliable and robust management information, especially in relation to productivity. Without data on productivity we used average task clearances by staff as a proxy measure. **Figure 10** (on pages 24 and 25) shows wide fluctuations within and across its six regions for the period March 2010 to June 2011. For example, the variation of 'legal enforcement productivity' recorded a low of one in the Eastern region and a high of seven in the North West, while the productivity of client services in the Northern region has ranged from four to seven task clearances. If these variations are representative of productivity across the Commission's work, we estimate that it could save around 270 full-time equivalents a year. This is equivalent to an annual saving of £5.7 million, if the Commission achieved the average task clearance level of the second best performing area on each line of business. The Commission noted that its planned new IT system will provide better management information on productivity.

Part Three

How the Commission plans to operate

3.1 We evaluated how the Commission identifies and assesses cost reduction measures to assess whether it had:

- set out a clear target operating model – a vision for how the business will work;
- aligned its business plans with having to make cost reductions during the spending review period; and
- identified sustainable cost reductions.

The Commission is developing its target operating model

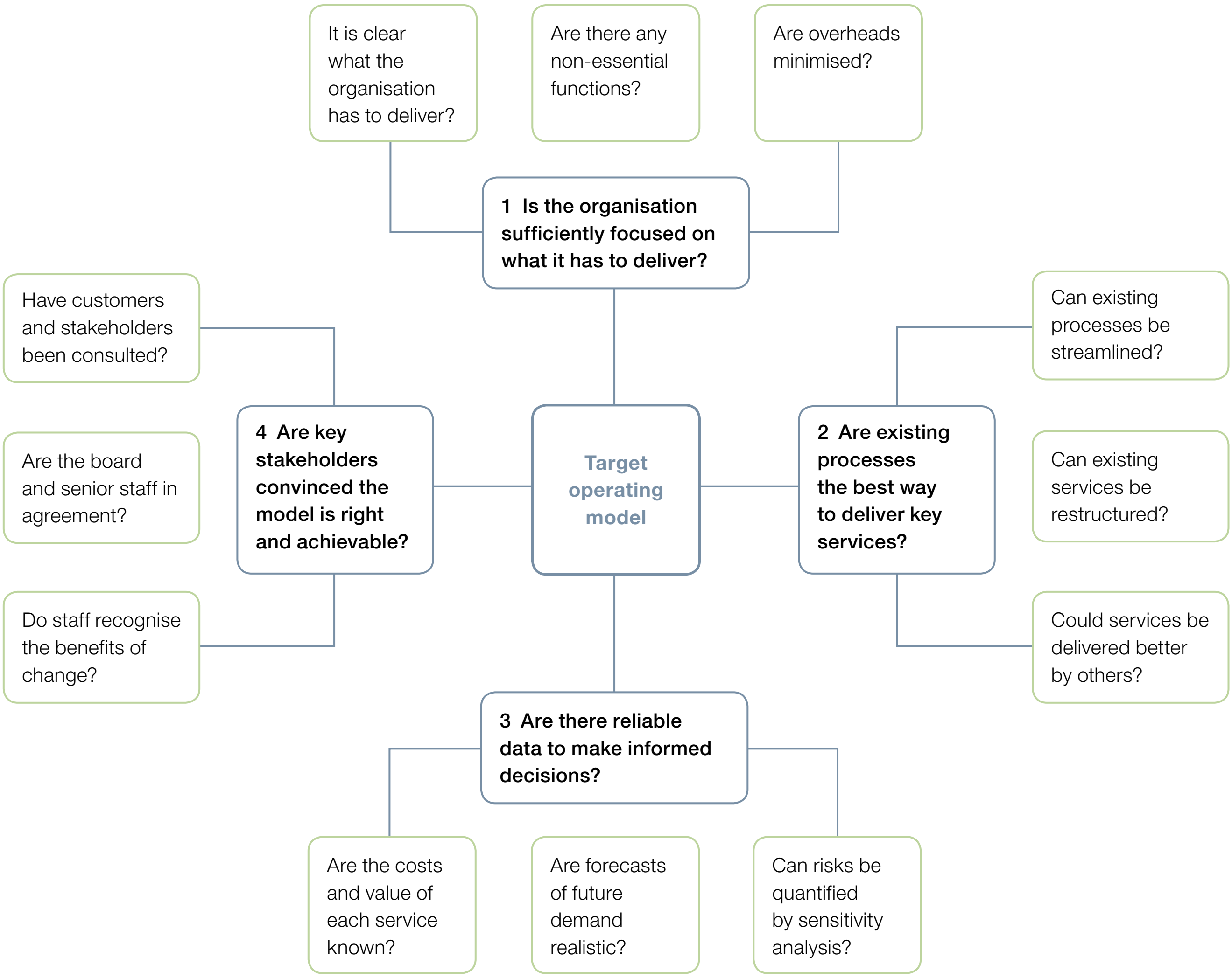
3.2 Achieving large-scale cost reductions depends on the Commission defining a target operating model. This is a vision of how an organisation will look, supported by a detailed outline of how it currently operates. **Figure 11** overleaf outlines key questions a target operating model should answer.

3.3 The Commission had the building blocks for a target operating model earlier than the Department. The Department drew on an organisational design review in April 2010 to start developing its model. The Commission inherited existing plans to improve child maintenance developed by the Department in response to the 2006 Henshaw report.[9]

3.4 The Commission's progress in defining a clear model has depended heavily on the planned development of the new child maintenance scheme and associated IT system. The Department did not complete the business case for changing child maintenance until November 2007 and the Commission was not formed until July 2008. We understand that when the chief executive of the Agency was appointed as the new Commissioner he notified the Department that the target delivery date of March 2010 was unachievable, but the delivery date was retained as an aspiration. The new organisation appointed a private contractor to deliver the IT in March 2009, by which time the delivery date was unrealistic.

9 Sir David Henshaw's report to the Secretary of State for Work and Pensions, *Recovering child support: routes to responsibility*, Cm 8894, July 2006.

Figure 11
Key questions a target operating model should answer



Source: National Audit Office

3.5 From May 2010, the Commission has had to integrate the coalition Government's goals for supporting and strengthening families into its plans. In January 2011, the Department published a Green Paper that outlined its plans for reform and invited views or comments. The plans included proposals to introduce charges (**Figure 12** overleaf).

3.6 The Commission's management team continues to develop its plans for how it will operate on less funding, with the aim of signing off the target operating model by 31 March 2012. Progress against the key questions we identified in Figure 11 is as follows:

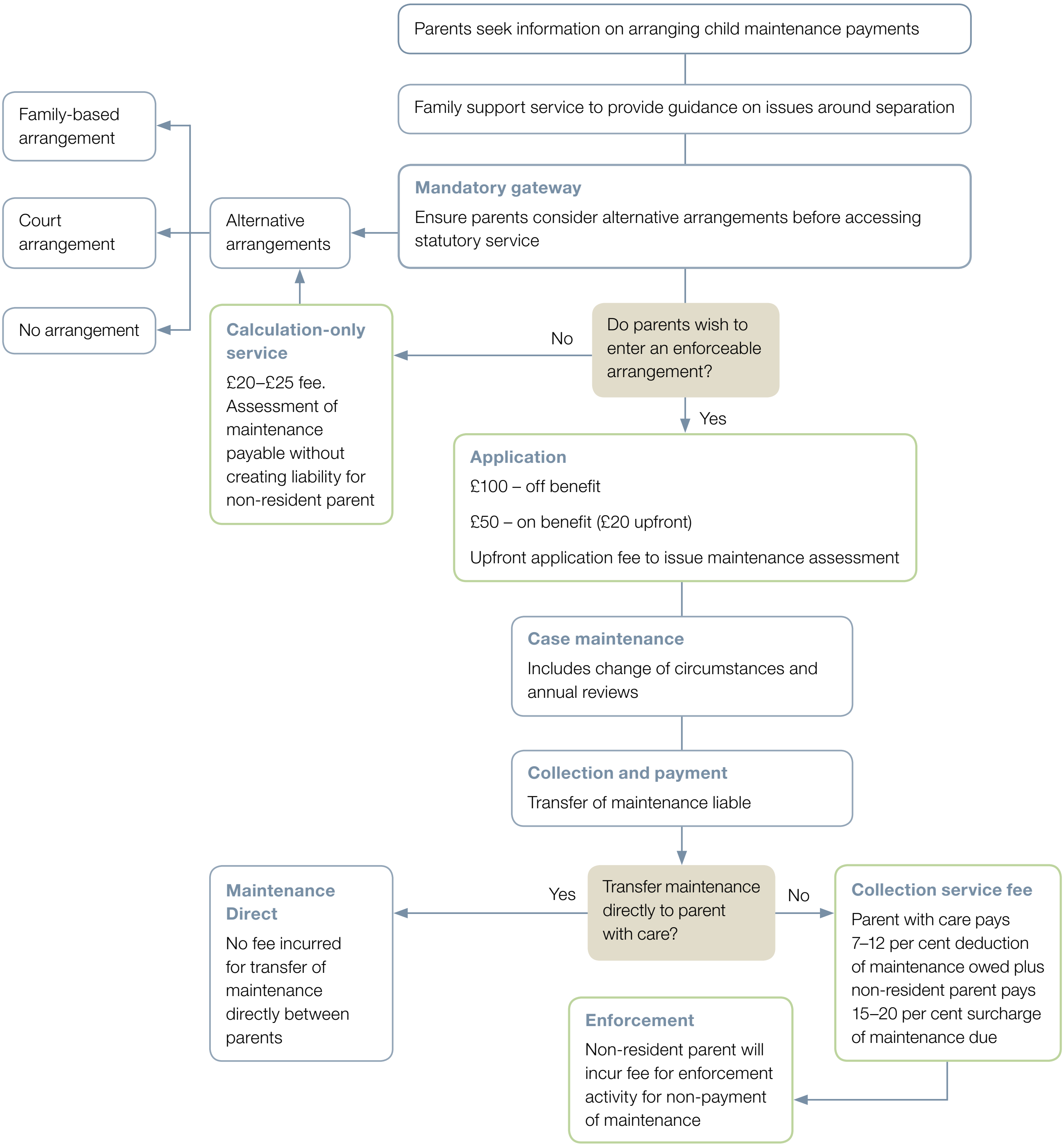
- **Is the organisation sufficiently focused on what it has to deliver?** In July 2011, the Commission published its 2011-12 delivery plan setting out how it planned to meet the coalition Government's priorities. The organisation is strongly focused on delivery of the new scheme, the new IT system, and resolving clerical cases. The agreement with the Department sets out its funding settlement, which includes achieving efficiencies of £151 million in 2014-15.

- **Are existing processes the best way to deliver key services?** In February 2011, the Commission started to reorganise its operations into a single structure. It expects to reduce staff numbers by 10 per cent in its central directorates and by 8 per cent in its operations.

- **Are there reliable data to make informed decisions?** The Commission has undertaken customer insight analysis to estimate the impact of introducing fees. It has developed a model to estimate staff numbers needed for different levels of workload and it has quantified the risks using sensitivity analysis.

- **Are key stakeholders convinced the model is right and achievable?** The Commission has not yet agreed the detail of its proposed target operating model. In addition, in January 2011, the Department issued a Green Paper on policy changes. The majority of external stakeholders we contacted raised concerns over the planned introduction of charges.

Figure 12
Government proposals to introduce charges for statutory child maintenance



NOTE

1 Light green boxes denote services incurring charges.

Source: National Audit Office summary of the January 2011 Green Paper

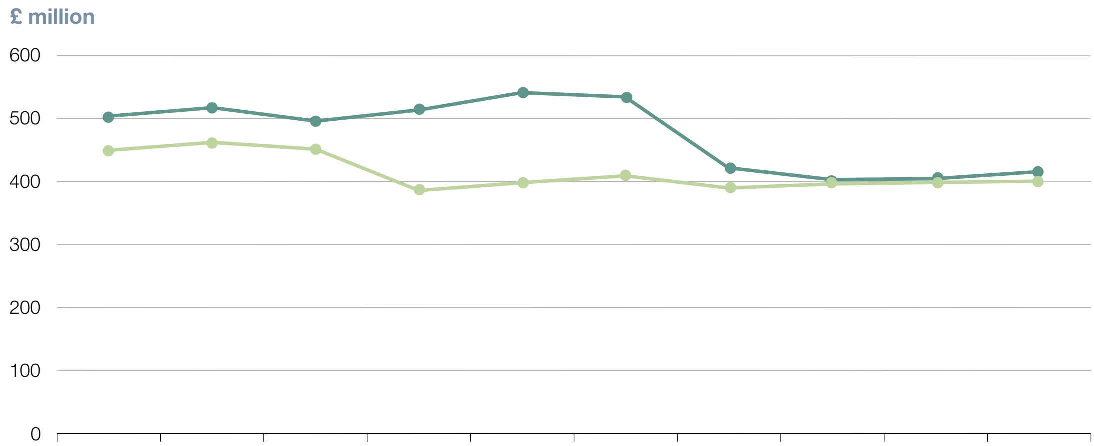
The Department has revised the Commission's funding to align with its business plans

Longer-term cost reductions from the new scheme will not be in time for the spending review

3.7 The Commission expects the new child maintenance scheme to encourage more parents to manage arrangements themselves. Existing customers will have their cases closed and parents with care will be able to apply to the new scheme. The Commission has estimated that 670,000 of its existing customers[10] will choose to apply. The Commission estimated that more than half of those that do not apply would not have done so regardless of introducing charges. Around 140,000 cases are expected to set up a family-based arrangement and around 20,000 will opt to use the courts to make arrangements. The Commission expects the remaining 110,000 cases to have no arrangements although some 70,000 are cases that have no maintenance liability. New cases are also forecast to fall from 100,000 to 89,000 each year owing to the Commission introducing fees.

3.8 The Commission expects gross costs to increase between 2013-14 and 2016-17 as it implements and operates the new scheme in parallel with the existing schemes. From 2017-18, the Commission expects its costs to stabilise at around £400 million a year (**Figure 13**).

Figure 13
Forecast gross and operating costs of the Commission



	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Gross cost	504	517	496	514	541	534	422	403	405	416
Operational cost	450	463	452	386	399	409	390	397	399	401

NOTES
1 Operational costs relate to delivering statutory schemes and information and advice for family-based arrangements.
2 Gross costs include transition and change programme costs associated with the new scheme.

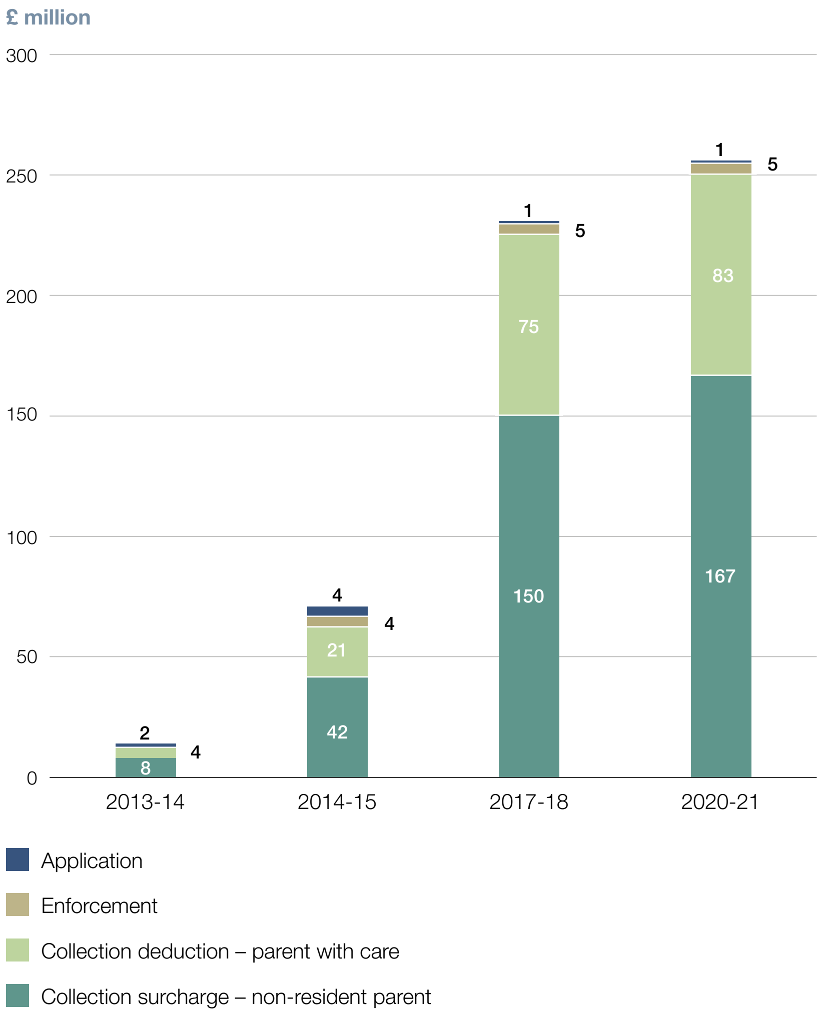
Source: Commission data

10 The Commission estimates around 943,000 existing customers will be invited to reapply to the new scheme.

The business plan relies heavily on introducing fees

3.9 The Commission estimates that the introduction of fees or surcharges with the new scheme would reduce its net funding requirement in 2014-15. **Figure 14** shows that the Commission expects fee income to amount to £71 million that year. Assuming that its workload reduces, from introducing fees, the Commission's costs would also reduce by some £12 million by March 2015.

Figure 14
Estimated fee income



NOTES
1 Fee income presented for selected years.
2 Charges will be introduced as part of phase two, currently scheduled for 2013.
3 Transitioning of current users to the new scheme is scheduled to end in 2016-17.

Source: Commission data

The plans do not match the reduction originally expected by the Department

3.10 The Commission's plans fall short of the Department's original target by £44 million. The budget comprises cash efficiencies of £151 million, income of £71 million and workload reductions of £12 million. Once offset by the estimated impact of inflation and the cost of developing the new scheme, the net impact is a reduction in funding for 2014-15 of £117 million against the 2010-11 baseline. The revised settlement takes account of:

- the Commission's intention for upfront spending to deliver future savings;
- delays to the change programme, impacting on how far the Commission can deliver savings in the spending review period; and
- revisions to the proposed introduction of charging.

3.11 The Commission has identified cuts it will make to budgets to achieve cost reductions, but this is not yet supported by adequate plans on how the savings will be realised. The Commission is still developing a detailed model of how it will operate and without detailed plans this increases the risk that the Commission will fall short of its target.

The Commission's business plans are unlikely to be sustainable

3.12 We examined the Commission's business plans against the following criteria:

- The estimates depend on having a sophisticated model that can be updated to reflect changing circumstances.
- The model depends upon reliable data and prudent assumptions.
- There should be suitable arrangements to implement any changes on time.
- There should be sufficient contingencies in case planned savings do not materialise.

The Commission's planning tool is cumbersome and no longer fit for purpose

3.13 The Commission's forecasts for the new scheme are based on an overly complicated financial model. The model was first developed in 2008 to estimate staffing requirements and is now used to forecast high-level financial and resource impacts. Only selected parts of the data are routinely updated. The model consists of 67 spreadsheets, some of which are no longer used in the calculations. The purpose of each spreadsheet is not clear and we could not validate the data used. The Commission believes that it would be inefficient to regularly update the whole model.

The Commission's model is not based on reliable data and prudent assumptions

3.14 The Commission estimates the new scheme will cost at least £598 million to implement, including £275 million on the IT system. A further £70 million is set aside for staff development. It expects to spend £253 million in closing cases and dealing with applications to the new scheme.

3.15 There is a risk that the new scheme will cost more than budgeted to implement. **Figure 15** shows that the Commission's forecast savings over a ten-year period have declined markedly since June 2010, largely because the expected benefits from closing the existing schemes have fallen. The estimated operational savings have fallen by more than £700 million since June 2010. The estimates do not take account of the potential risk of failure with existing IT systems. The new scheme, excluding fee income, might generate a return if it could be used over a longer period. However, the Commission has not taken account of the impact on customers or estimated all costs to government in its forecasts. It has not estimated the cost of more families going to court to agree child maintenance arrangements instead of using the new scheme, because it believes that the numbers would be negligible.

3.16 The Commission has not formally submitted a revised business case to HM Treasury since the Department's original case in 2007. As part of its gateway review in July 2011, the Major Projects Authority said that the Commission must update the business case by 31 October 2011. The Commission informed us in January 2012 that it had submitted a revised business case to the Department for review.

Figure 15

Forecast savings to gross costs have decreased because the expected cost of continuing with the existing schemes has fallen

Ten-year forecast	November 2007 (£m)	June 2010 (£m)	September 2011 (£m)
Cost of existing schemes	5,792	5,374	4,642
Spending on implementing and running new scheme	4,976	4,773	4,779
Saving/cost	816	601	-137
Fee income	0	0	1,150
Net savings	816	601	1,013

NOTE

1 Values are not adjusted for inflation or discounting.

Source: National Audit Office analysis of Commission financial forecasts

3.17 It has also proved difficult to estimate potential income from charging. In July 2011, the Commission undertook customer insight analysis to quantify the proposed introduction of fees on demand. The findings showed high uncertainty as to how customers might respond to fees. The Commission assumed that some parents who objected to paying fees would relent, because of the cost of making arrangements in the courts. It also assumed that non-resident parents that missed too many payments would be compelled to use the collection service. On the basis of customers' approach to the existing child maintenance schemes, it is likely that some will not regularly meet their commitments and end up having to pay the Commission's charges. While there is always likely to be a difference between the stated preference of customers and how they actually behave once a change is brought in, it is difficult to predict the exact nature of the response in advance with any confidence. To that extent it is difficult to substantiate the reasonableness of the assumptions made.

3.18 **Figure 16** overleaf compares the Commission's estimate of fee income in its financial forecasts with our analysis of fee income based on the Commission's customer insight analysis. The 'optimistic' and 'cautious' estimates are based on the Commission's upper- and lower-range estimates for the number of customers prepared to pay fees after adjusting for how it expects them to behave. The estimate of the unadjusted survey is modelled on the proportion (13 per cent) of non-resident parents who replied they would use the Commission's collection service to transfer maintenance payments. The Commission believes that such a scenario is highly unlikely as some parents will demonstrate behaviour that will necessitate the use of the collection service. The Commission believes a range between 56 and 78 per cent of non-resident parents using the collection service is more realistic. Drawing on the Commission's range of scenarios, income in 2014-15 could fall short of the £71 million forecast by £30 million, or exceed it by £4 million. The potential variation is more significant in subsequent years.

3.19 The Commission has stated that a shortfall in income would be mitigated by reduced workload and therefore its cost base. It is optimistic, however, to assume that any shortfalls in income in 2014-15 will be offset by cost reductions in the same year. While the Commission should be able to make adjustments over the longer-term transition to the new scheme by 2016-17, there is less flexibility in 2014-15 to take corrective measures before the end of the spending review.

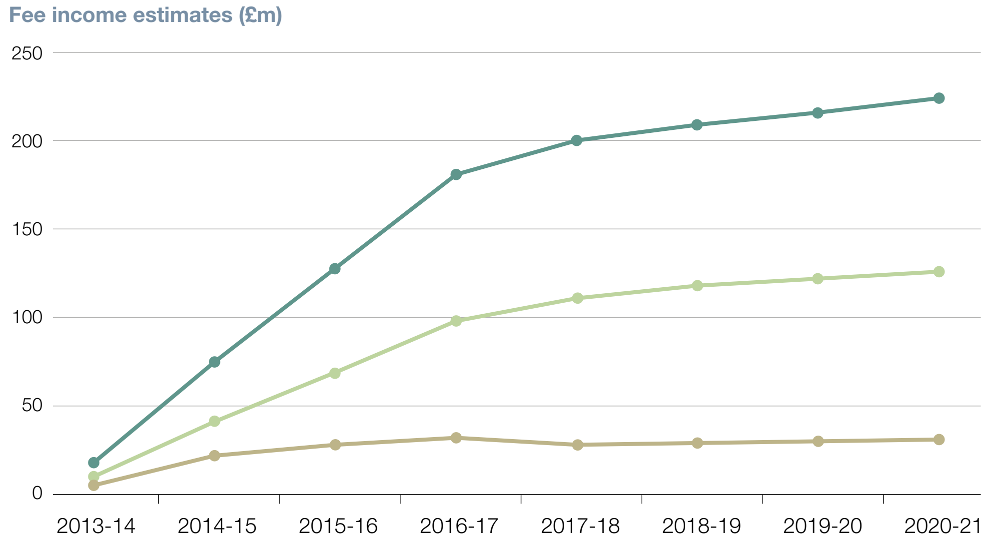
Implementation may well be delayed

3.20 The Commission plans to introduce the new scheme in two phases:

- **Phase one:** The Commission will be able to enter applications from new clients into the new scheme from October 2012.
- **Phase two:** This should start six months after phase one and has an indicative date of July 2013[11] to launch the statutory gateway service, and to introduce charges.

11 Phase two would occur at least six months after successful implementation of phase one.

Figure 16
Fee income could vary considerably



	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
High levels of compliance and high use of the collection service	18	75	128	181	200	209	216	224
Low levels of compliance and low use of the collection service	10	41	69	98	111	118	122	126
Unadjusted survey data – Low levels of compliance and very low use of collection service	5	22	28	32	28	29	30	31

Source: National Audit Office analysis

3.21 The effectiveness of the new scheme and therefore forecast cost savings depends on successfully implementing the new IT system. This new system will largely consist of commercially available software, rather than a bespoke package, but some work is needed to align and customise the different software packages, adapt them to the Commission's needs, and to link them to other government systems.

3.22 The Agency did not have a good track record in delivering IT systems. The Commission maintains that it has subsequently implemented four significant changes to its existing systems and it has a good track record of holding back IT releases until it was satisfied they would work. The Commission confirmed that "satisfactory operation of the system is a prerequisite for going live". Nevertheless, we found that the Commission is at risk of repeating many of the mistakes of 2003 (**Figure 17**).

Figure 17
Commission risks repeating past mistakes

Factors contributing to failures in 2003	Factors affecting delivery of new IT system
The Department's original contracting strategy was inappropriate	The Commission appointed Tata Consulting Services (TCS) to develop the system. Early contract management has been handled by the programme team rather than the Commission's contract management team. The Commission improved the Commercial Team's input into management of the contract from February 2011.
It did not have sufficient internal technical resource to be an intelligent customer of the contractor	The Commission initially used elements of both an 'agile' (iterative) approach and a traditional approach to build the new system. Its mix and match approach meant there were two distinct routes for specifying requirements and resulted in duplicated, conflicting and ambiguous specifications. The Commission did not have previous experience of using the agile approach. The Office of Government Commerce (OGC) concluded in July 2011 that the Commission's ability to act as an intelligent customer contributed to slippage in the programme.
It took some time to develop a full partnership with its contractor	The Commission could not always specify its requirements clearly. In addition, a lack of knowledge led to failing to recognise standards that were required. This led to protracted discussions with the application developers as they discussed the meaning and implementation of requirements.
Planning was over-optimistic	The delivery date has slipped three times from full delivery in April 2010 to implementation in two phases in October 2012 and July 2013. Critical testing activities must now be performed in parallel with programme delivery to remain on track. This introduces greater complexity for the Commission, including additional resources needed to manage the remainder of phase one. In December 2011, the Commission told us that a detailed high-level plan is now in place supported by underpinning programme and project plans, with a clear critical path that includes all testing activities.
There were a number of serious governance failures	Governance arrangements did not identify that detailed plans were not robust until March 2011. A vertical project structure meant teams were isolated from each other. The Commission has reverted to a more traditional approach to system development. It will use 'project review gates' (based on Department guidance) so that requirements design work will not proceed from one stage to the next without being ratified by all key stakeholders. OGC concluded in July 2011 that there had been significant improvements in programme documentation and that, in general, programme management and governance were strong. It gave a delivery confidence assessment of 'amber' overall.

NOTE

1 Comptroller and Auditor General, *Child Support Agency – implementation of the child support reforms,* Session 2005-06, HC 1174, National Audit Office, June 2006.

Source: National Audit Office review of new IT system

3.23 The first phase of the new system will provide a new technology platform that can interface with aspects of HM Revenue & Customs' tax data and the Department's benefits information. The second phase will deliver the efficiencies that will realise most of the forecast benefits. Requirements that have been deferred to phase two total 900, which is less than 1 per cent of the requirements included for phase one. Deferred requirements include 70 that are deemed critical and would increase efficiency and effectiveness. These include automated functions to reduce processing costs and automated phone enquiries and payments. The Commission states that there was no business case and budget for automated phone services and that it always planned a 'soft launch' for self-service.

3.24 The new system is based on 'commercial off-the-shelf' products. However, a recent audit by Oracle identified that the performance, maintainability and adaptability of the new system would be key risks. This could increase the cost of supporting the system. The scheme does not yet include plans for the integration with HM Revenue & Customs' Real Time Information system due to be implemented in 2013, or introducing Universal Credit because of the differing timescales.

3.25 In January 2011, the Commission reported to its audit committee that the forecast cost of the new IT system was £149 million. By October 2011, it reported that the forecast cost was £275 million. The Commission has estimated that £27 million of the difference was due to cost increases but we cannot substantiate this amount. IT costs and the wider change programme costs were reclassified between these dates. Therefore we could not establish how far the difference was due to changes in the scope of the project, delays, cost increases, or other factors. By October 2011 spending amounted to £112 million.

3.26 Achieving the Commission's plans without further cost increases or delays appears unlikely. The Commission reported to the audit committee in October 2011 on the high risk that the change programme may not deliver phase two functionality within agreed timescales, to realise the benefits outlined in the business case. The Commission did not develop a benefits realisation plan until November 2011.

There are no contingencies if savings do not materialise

3.27 The Commission has not built any contingency into delivering the new scheme. However, it has carried out some sensitivity analysis of its forecasts, such as the impact of changes to policy assumptions, delays to transition and charging, and lower levels of automation in the new system. For example, the Commission has estimated that if levels of automation are only half the levels planned, costs could increase by £278 million over ten years. The Commission has identified mitigating action that it might take, for example to test automation levels. However, the Commission has not identified specific actions it could take to reduce its operational costs to provide more contingency. The Commission has changed its programme governance to help deliver the new scheme and noted that it is undertaking a fundamental review of central operational budgets to identify additional efficiencies.

Part Four

Options for further cost reductions

4.1 The Commission's plans for cost reduction depend on successfully implementing the new scheme. This inevitably generates some risk as it therefore depends on factors largely outside its control, such as customer behaviour.

4.2 This part examines how far the Commission has explored cost reductions in those areas more within its control. This might include:

- **Streamlining service provision:** While the Commission has merged the separate corporate functions undertaken by its Child Support Agency division, it ought to explore whether a greater proportion of these services could be merged with the Department or shared service functions. The Commission has reduced the number of its offices to 70,[12] of which some 20 are major sites, and it plans to close a further four major sites and two minor sites by 2014-15. A reduction in the number of offices to 64[13] is still far from the original organisational design of the Child Support Agency for a head office and six processing centres.[14]

- **Improving process management:** Cost reductions are expected from Jobcentre Plus's programme of continuous improvement. The programme includes measures such as simplifying existing processes and rolling out a more active approach to matching staff numbers and productivity levels to workload. The pilot for staff and workload matching in one delivery centre involved weekly meetings where line managers would explain previous outturn and discuss resourcing needs for the week ahead. This resulted in 15 per cent efficiency savings and the approach is now being rolled-out to all centres. The Commission wishes to adopt a culture of continuous improvement to drive process efficiencies. To be successful it will need to understand better how demand impacts on workload and the cost of processing different types of demand. In 2011-12, the Commission introduced a system of unit costing to measure the cost of, for example, cleared applications, administrating cases with no liability and clerical cases processed outside the main IT systems.

12 Commission's estates data for August 2011.
13 Figure excludes 48 small 'grace and favour' sites provided by the Department for no charge.
14 The Agency, *Child Support Agency report on handover to the Child Maintenance and Enforcement Commission*, December 2008.

- **Outsourcing functions:** The Commission has put on hold plans to outsource further functions until successfully implementing the new scheme. The private sector may be better placed to undertake all or some functions. However, the Commission has not assessed whether HM Revenue & Customs may be better placed to calculate and collect maintenance sums. In New Zealand, for example, child maintenance is administered through the tax system. HM Revenue & Customs raised concerns about the practicality and feasibility of taking on this role.

4.3 Each of these options has potential advantages and disadvantages (**Figure 18**). The Commission informed us that it had considered these options but it had not undertaken any cost–benefit analysis to quantify their impact.

Figure 18
Options for securing cost reductions

Options	Possible approach	Potential saving	Advantages	Disadvantages
Streamline service provision	Estate reduction	Medium	In line with original expectations. There may be opportunities to use the Department for Work and Pensions' estate.	Can take time to release buildings.
	Reduce corporate overhead functions	High	Avoids reducing front line activity.	Redundancy costs.
Process management	Lean reviews	High	Already used in Jobcentre Plus. Could be readily used on existing schemes.	Savings may take time to be secured.
	Active workload management	High	Savings can be realised quickly. A Jobcentre Plus pilot achieved 15 per cent savings.	Cost around £6 million to implement the pilot. Running cost of £1 million a year.
Outsource functions	Outsource to private sector	Medium	Private companies may charge less.	Savings depend on tenders.
	Transfer calculation and collection to HM Revenue & Customs	Unknown	Scope to calculate and collect maintenance through PAYE systems.	Risk of distracting HM Revenue & Customs from core role to collect tax.
			Increased incentive for parents to report omissions from non-resident parents' taxable income.	The net cost–benefit of a HM Revenue & Customs scheme may give a lower return than the Commission's plans.

NOTE
1 Medium represents savings of up to £10 million. High represents any savings above this level.

Source: National Audit Office analysis

4.4 To secure sufficient cost reductions before March 2015, the initial focus should be on streamlining processes and back-office functions. The Commission expects its reorganisation into a single management structure in 2011 to reduce headcount by 10 per cent in central directorates by March 2012 and has commenced a fundamental review of all central operational functions to look for further savings. In summer 2011, the Commission developed an efficiency programme that it expects to reduce headcount by 8 per cent in frontline processes by March 2015.

4.5 We assessed if the Commission has the expected characteristics of an organisation that can effectively manage business processes. We reviewed the high-level management of processes and three case study processes in more detail.[15] These are:

- responding to complaints;
- setting up deduction from earnings orders with employers; and
- registering liability orders at the courts.

4.6 Overall, we found the Commission could substantially improve service delivery and efficiency with the following measures:

- **Improving understanding of the volume and mix of caseload.** The Commission uses the historical number of cases to calculate staff requirements but has limited understanding of the hours needed to process a case. There is a risk that processes are under- or over-resourced, and the maximum level of cases teams can process is not known. This can result in overburdening of staff and increased waiting times for the customer. Staff we spoke to estimated that the hours of work needed to process a case can vary significantly:
  - A complaint can take between 7 and 77 hours to resolve.
  - A deduction from earnings order can take 3 to 13 hours' work.
  - A liability order can take between 59 and 129 hours' work.
- **Improving the type of information available to staff managing the process.** The Commission does not have any meaningful measures on performance through the process. Indicators are predominantly focused on the final output rather than identifying where in the process errors arise. This has led to an over-reliance on quality checks at the end of the process. Staff working in each process identified examples of how this triggers rework and delay. The Commission is developing a more balanced scorecard of indicators.

15 Our process management specialists applied the National Audit Office's Process Management Maturity Analytic, further details of which can be found at http://www.nao.org.uk/publications/1011/process_management.aspx

- **Embedding continuous improvement.** Staff working in all three processes suggested ways to improve services to the customer, speed up processing times and eliminate waste. The Commission is now capturing and implementing improvements identified by staff. However, the frontline staff we spoke to about improvements did not refer to this approach and explained that while they would share ideas with colleagues they perceived any improvements to be top-down driven.

4.7 On the basis of our qualitative work, the Commission already has some of the foundations needed to introduce controlled process management improvement. The staff we interviewed confirmed that they were consulted about change and that they felt notably more enthusiastic following the arrival of the new Commissioner.

Appendix One

Methodology

Method	Purpose
Document review Review of documents including business plans, external reviews, contracts, performance monitoring information.	To assess the Commission's progress in implementing changes and improving performance.
Questionnaire and semi-structured interviews The Commission and the Department completed a questionnaire and we met with officials.	To gather information and views on progress, implementation of the programme, and future plans.
Financial analysis Review of financial and planning data of administering current and future child maintenance schemes.	To assess the sensitivity of forecasts and consider performance.
Process management review We assessed the maturity of process management within the Commission, including workshops with 20 staff working on three processes.	To assess whether the Commission exhibited characteristics of good process management.
Stakeholder consultation Interviews and written questionnaire with 11 stakeholders including organisations that represent or provide services to separated parents.	To identify the wider impact and outcomes of how child maintenance affects separated families.
IT review Review of documentation of the new IT system and interviews with officials.	To assess the Commission's IT project planning, and governance arrangements for implementing new IT system.

Design and Production by
NAO Communications
DP Ref: 009802-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with the FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation, which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone, Fax & Email
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/General enquiries: 0870 600 5522
Order through the Parliamentary Hotline
Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/General enquiries 020 7219 3890
Fax orders: 020 7219 3866
Email: bookshop@parliament.uk
Internet: http//www.bookshop.parliament.uk

TSO@Blackwell and other Accredited Agents

£16.00

ISBN 978-0-10-297541-3

9 780102 975413