REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Department for Work and Pensions

Child Maintenance and Enforcement Commission: Cost Reduction

Key facts

£560m	£117m	£44m
the Commission's budget in 2010-11	the Commission's forecast cost reduction in 2014-15	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.