

## 4 Putting the child first

1. The core principle behind child support arrangements is improving the welfare of children. It is primarily the responsibility of parents to agree and pay child support. However, failure to make such arrangements can have negative consequences for the welfare of children and wider society. For these reasons, the Government should support parents in discharging their responsibilities.
2. Child welfare is affected by many factors, but two of the most significant are family formation and poverty. Children who have experienced parental separation or have grown up in lone-parent households are more likely to have negative outcomes. These can occur across a range of measures, including health, education and employment.<sup>1</sup> Such outcomes partly stem from experiencing the absence of a parent and the emotional, social and economic roles that they fulfil. Witnessing the separation of their parents and experiencing parental conflict can have a long-term effect on a child's well-being.
3. The economic impact of lone parenthood can be significant. Children in lone-parent families are at a significantly higher risk of poverty than those in couple households, which is important as poverty is a key driver of poor welfare outcomes in children.<sup>2</sup> The sudden drop in income resulting from parental separation is a major factor contributing to the underachievement of some children from lone-parent families.<sup>3</sup> In such cases child support can make a difference to the economic position of the household.<sup>4</sup>
4. Taking financial responsibility for one's children is recognised to be a key parental responsibility.<sup>5</sup> (Wider issues of parental responsibility such as maintaining parent-child relationships after separation are outside the remit of the redesign and are being considered elsewhere by government.<sup>6</sup>) Failure to deliver financial responsibility can have widespread negative consequences. It is not fair for the child, their parent with care or wider society to suffer as a result of non-resident parents failing to take their responsibilities. An accepted duty of government is to provide a framework for people to discharge their responsibilities. This creates a role for the state both to support and to facilitate child support arrangements and, where necessary, to enforce responsibility.
5. The approach of the new system should be to give parents the lead role in making child support arrangements. In so doing, the state needs to remove the barriers that currently prevent parents from sorting out maintenance between themselves. Recent research shows that parents support this approach.<sup>7</sup>

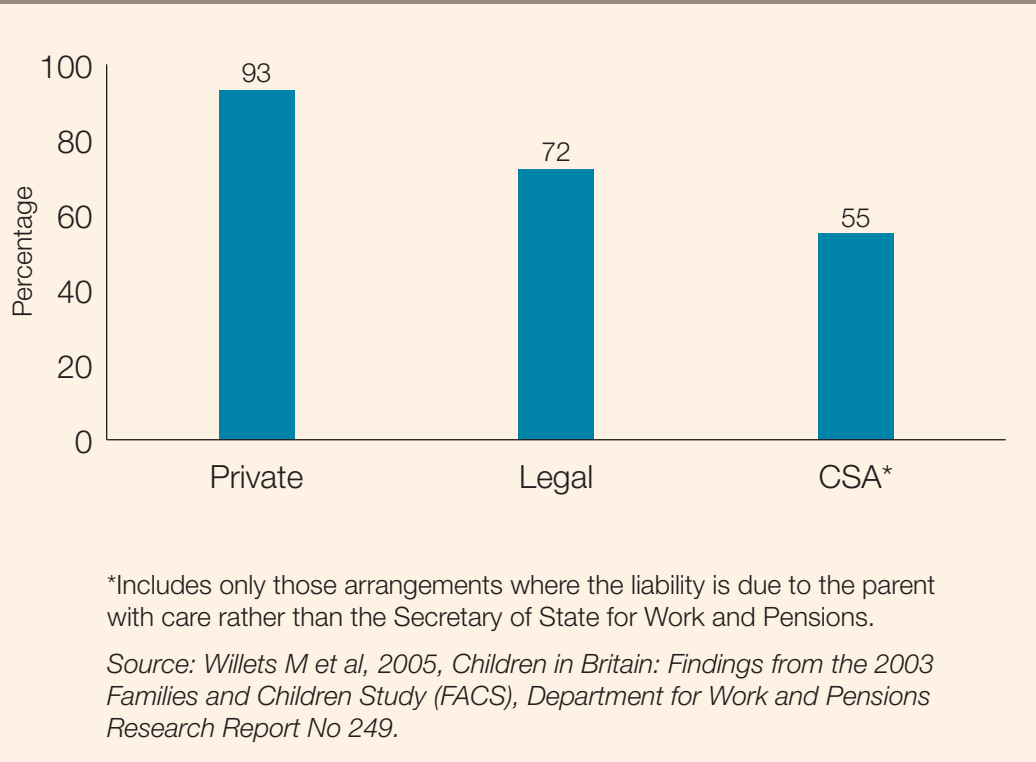
6. Child support is first and foremost the responsibility of parents. Evidence suggests that where people are able to make their own arrangements they benefit from greater satisfaction and higher compliance levels.<sup>8</sup> As a result, child welfare is improved as maintenance is more likely to flow, and conflict between parents is likely to be reduced.<sup>9</sup> In many cases where child support is an issue, circumstances are complicated for relationship or financial reasons. Allowing parents to make their own arrangements gives them the flexibility to accommodate individual situations and changing circumstances. As such, I believe there is a strong case for encouraging parents to make their own arrangements.
7. Where parents are unable to sort things out for themselves, or when private arrangements break down, the state will provide support to help parents to agree, establish and maintain payments. Taking financial responsibility is not optional, and parents should not be able to get away with evading their responsibilities. The state should ensure that those who try to avoid paying maintenance are held accountable. Where necessary, strong enforcement action should be taken.
8. The role of the state in child support is therefore based around two principles:
  - improving the welfare of children; and
  - ensuring that parents take financial responsibility for their children.
9. In addition, the framework that the state provides must be:
  - transparent, accountable and easy for parents to understand and use;
  - fair, credible and accepted as legitimate;
  - joined up across relevant government services; and
  - cost-effective.

**Recommendation: Create a system that allows parents to make their own arrangements for child support, with quick and effective involvement from the state where such arrangements are not possible.**

## Child support is not working

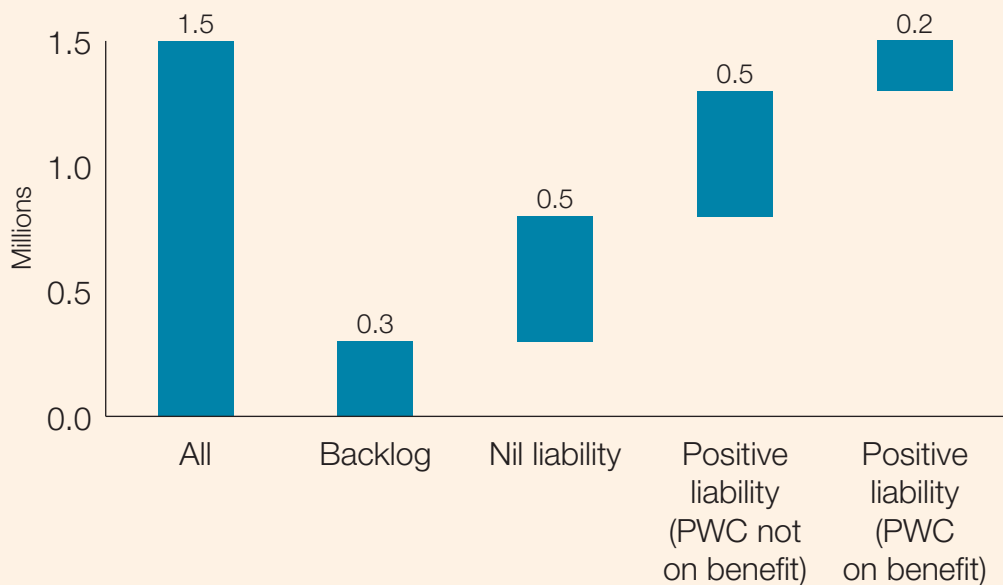
10. The current system fails to deliver effectively. Child support currently makes only a limited contribution to tackling child poverty. While child support lifts around 100,000 children out of poverty,<sup>10</sup> only 42,000 parents with care<sup>11</sup> on benefits receive a net increase in income as a result of payments.<sup>12</sup>
11. Child welfare can also suffer through the conflict that may arise between parents as a result of third-party involvement in child support. Survey evidence indicates that forcing parents with care on benefits to use the Child Support Agency (CSA) can overturn successful private arrangements and create conflict between parents.<sup>13</sup> Many parents do not understand that parents with care have to use the system.<sup>14</sup> This can create arguments and misunderstanding if one parent believes the other has chosen to involve the CSA, especially if private arrangements were previously in place.
12. Improving enforcement of social norms and responsibilities was a key objective in the creation of the CSA.<sup>15</sup> This was in response to the low levels of lone parents receiving maintenance. However, 16 years later the figures have barely improved. Although many non-resident parents do take financial responsibility for their children and pay regular maintenance, there is a widespread belief among others that it is possible and, in some cases, acceptable to avoid paying.<sup>16</sup> This contributes to the fact that only around 30 per cent of parents with care are receiving any maintenance at all.<sup>17</sup> Compliance with arrangements made through the CSA is lower than for arrangements made through other routes.

Figure 1. Parents with care reporting receipt of maintenance by type of arrangement



13. Cost-efficiency for the taxpayer has consistently been poor. In 2004/05, the CSA recovered £120 million in Income Support expenditure against costs of £425 million. In the region of £80 million was saved through other routes.<sup>18</sup> Therefore, the system runs at a net cost to the taxpayer of around £200 million. There is also outstanding debt, in the form of unpaid maintenance, of over £3 billion. The cost-efficiency of the UK system does not compare favourably with systems used in other countries.<sup>19</sup> One of the reasons for poor cost-efficiency is that, as Figure 2 illustrates, only a very small proportion of the Agency's caseload has the potential to recover funds for the state (that is a case with a positive liability where the parent with care is on benefits).

Figure 2. Analysis of current caseload



Source: Child Support Agency Quarterly Summary of Statistics, March 2006 and Department for Work and Pensions 100% benefits database.<sup>20</sup>

PWC = parent with care

## Why the current system fails to deliver

14. Since its inception, the CSA has been weighed down by a series of problems that have prevented it from delivering. There are three main problems:
  - *Policy problems*: These stem from the overly ambitious policy framework that the Agency was expected to deliver.
  - *Operational problems*: The complex policy architecture created difficult operational requirements.
  - *Legacy issues*: Repeated attempts to address operational problems without addressing the underlying policy issues have created a third set of problems, resulting from the legacy of past failings.
15. *Policy problems*: Since its creation, the CSA has been held back by fundamental policy problems. Having multiple objectives makes it more difficult to deliver any one goal. The current system was originally designed primarily to reclaim money for the taxpayer when parents with care are on benefits. This may be difficult to achieve in a cost-effective way alongside tackling child poverty. Other countries have also found it difficult to achieve multiple objectives.

For example, the United States changed its approach, making child support a ‘family first programme’ rather than one focused on cost recovery: “child support is no longer primarily a welfare reimbursement, revenue-producing device for the federal and state government; it is a family first programme.”<sup>21</sup>

16. To enable the state to recoup benefit costs, benefit claimants are compelled to use the CSA to make child support arrangements. This limits their incentives to co-operate and, as a result, parents may decide not to co-operate with the Agency and have informal arrangements instead. Compulsion results in parents being involved with the CSA when there is often no need.
17. The system tries to account for very complicated situations that make it difficult to administer. The more agreements are tailored to individual circumstances, the more challenging it is for the system to deliver. A large portion of the client group is characterised by complexity. Volatile income, regular movements in and out of work and complex relationships make it difficult for the system to keep up.
18. *Operational problems:* The CSA has a well-documented history of operational problems, including those addressed by the recent National Audit Office report.<sup>22</sup> For reasons both within and beyond the Agency’s control, reforms have been hindered by problems with the new computer system. This has resulted in the old and new schemes running in parallel.<sup>23</sup> As a result, operational performance remains very disappointing. Almost 70,000 old scheme cases are still outstanding three years after the new rules were introduced. There is also a backlog of a quarter of a million new scheme cases and a further 150,000 cases where a payment schedule is not in place. There are 127,000 cases where no maintenance has been paid during the past three months.<sup>24</sup>
19. An Operational Improvement Plan was announced in February 2006, setting out steps to improve the CSA’s operational performance. These include restructuring the Agency and streamlining business processes, as well as specific measures to deal with the backlog of cases and to improve the collection and enforcement of debt.<sup>25</sup> Further details are set out in Annex II.
20. *Legacy issues:* Past attempts to address the problems facing the CSA have created further problems. When the new scheme rules were introduced, the Agency planned to migrate cases from the old to the new IT systems and to convert old scheme cases to the new scheme rules. Migration has not yet happened and operational problems have made conversion difficult. This is frustrating both for Agency staff and for parents who were expecting to see improvements.

## A policy framework focused on child welfare

21. To deliver the overall objectives for child support it is essential to enable parents to make their own child support arrangements, removing the barriers that currently prevent them from doing so. Enabling parents to make child support arrangements, in a way that best meets their needs, would increase the number of arrangements and, as a result, increase the number of children receiving maintenance.
22. Ending the compulsion for parents with care on benefits to use the CSA would allow parents to make their own arrangements and help to foster a culture of compliance. Survey evidence suggests that, given the choice, between 35 per cent and 50 per cent of parents with care currently compelled to use the Agency might cease to use it. Making people use the system can involve overturning successful private arrangements.<sup>26</sup> Enabling parents to make private arrangements would allow them to take responsibility for deciding child support and provide a tighter focus for the state service. Where parents cannot make arrangements between themselves, they will be able to opt in to the state system. This will provide a back-up to prevent parents from evading their responsibilities.

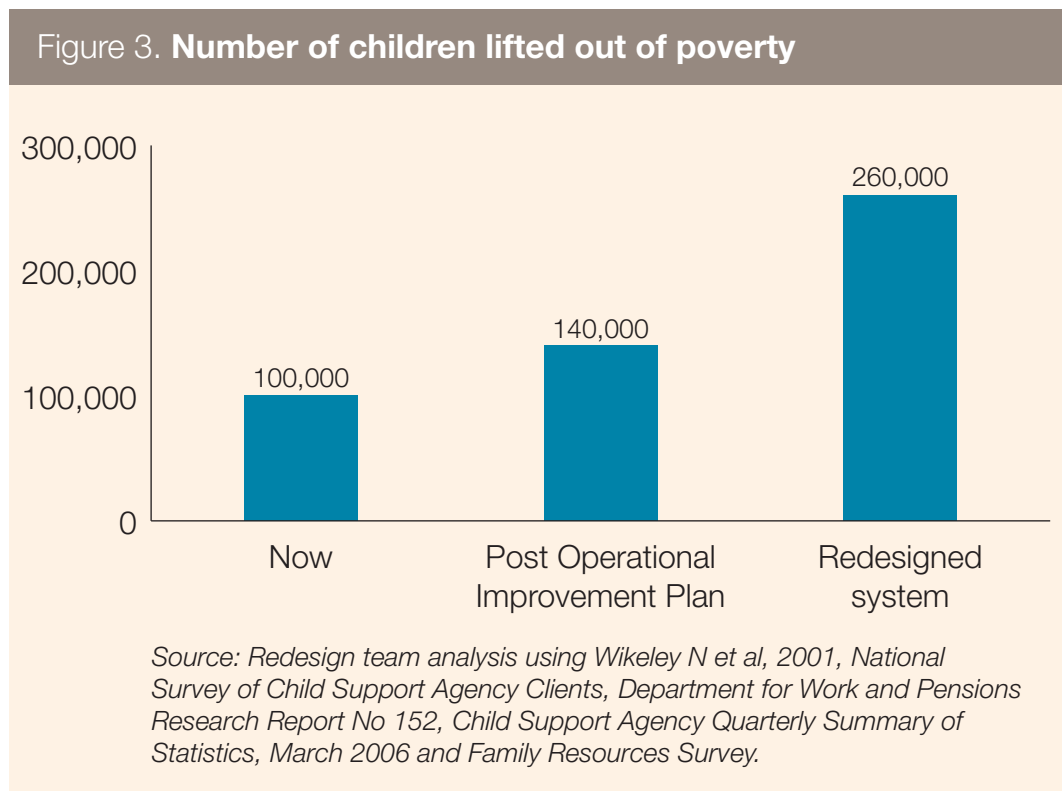
**Recommendation: Remove the compulsion for parents with care on benefits to apply for child support.**

## Disregarding maintenance in benefit calculations

23. Compelling parents with care on benefits to use the CSA was introduced so that the state could recover the maintenance paid by non-resident parents. Under the old scheme rules, all of the maintenance paid by non-resident parents goes to the state to offset the benefit cost. New scheme rules allow parents with care on benefits to keep up to £10 of any maintenance paid. This affects the incentives of both parents with care and non-resident parents to co-operate with the system. Parents with care have limited incentives to co-operate; regardless of what their non-resident parent pays, the most they will receive is £10 (if they are on the new scheme and nothing if they are on the old scheme<sup>27</sup>). Similarly, whatever non-resident parents pay in child maintenance, the most their child will receive is £10 a week. Reducing the incentives to co-operate while making people use the system makes it very difficult for the system to deliver. Benefit claimants will only make private arrangements if

they are allowed to keep most or all of the maintenance. International evidence suggests that allowing people to retain maintenance can have a positive impact on compliance.<sup>28</sup>

24. Disregarding more maintenance in benefit calculations<sup>29</sup> would have a positive impact on child poverty, as it increases the money flowing to parents with care. Analysis suggests that fully disregarding maintenance in benefit calculations would lift between 80,000 and 90,000 additional children out of poverty. A further 30,000 children would be moved out of poverty as a result of expected increases in the number of cases with a positive liability and improvements in compliance.<sup>30</sup>



25. As well as increasing the number of private arrangements and the number of children receiving maintenance, removing benefit compulsion and disregarding maintenance would also have major operational benefits. Allowing parents to make their own arrangements will reduce the numbers using the administrative service, while disregarding maintenance in benefit calculations would improve administrative simplicity. Varying current disregards while continuing to force benefit claimants to use the administrative service would not realise any significant operational benefits.

## Could full disregard diminish work incentives?

26. Disregarding maintenance in benefit calculations has the effect of increasing out-of-work income. All the maintenance received would be paid directly to the parent with care. Economic theory suggests that a disregard could act as a disincentive to move into work as it marginally decreases the financial gain.<sup>31</sup>
27. There are counterbalancing effects that reduce any negative impact. Completely disregarding Housing Benefit and Council Tax Benefit (beyond the current £15 disregard) would increase in-work income on top of wages for some. This means parents with care still stand to benefit financially from moving into work. Maintenance also tends to be a volatile source of income, so deciding to remain on benefits on the basis of maintenance income would be risky.
28. Partial maintenance disregard already exists in the form of the Child Maintenance Premium. Currently, a parent with care on Income Support (on the new scheme) can keep £10 a week of maintenance paid. There is no evidence that this has had any negative effect on the work incentives of parents with care. Research from the United States has shown that the impact of disregards is close to zero and dominated by the (positive) impact of greater child support payments.<sup>32</sup>
29. Also, for many parents with care, maintenance is a small proportion of total income in comparison to the impact of other benefits and tax credits. Some 60 per cent of parents with care on benefit on the new scheme have a calculation of £10 a week or less.<sup>33</sup>
30. Wisconsin's child support programme ran a multi-year, multi-method evaluation of a full disregard policy. Participants in the programme moved from a partial to a full disregard. This is the same situation as would be experienced by clients who already receive the Child Maintenance Premium moving to a full disregard. Researchers found no evidence of any negative impact on employment levels. Child support payments increased and there was greater co-operation with the formal system.<sup>34</sup>

## Could disregarding maintenance encourage relationship breakdown?

31. In cases where the parent with care is on benefit and the non-resident parent is in work, disregarding maintenance in benefit calculations increases the income available outside a relationship, as the parent with care can receive benefits and child maintenance. In theory this could lead to an increase in relationship breakdown.

However, research shows little evidence of this. Increases in income improve the financial independence of parents with care, but this will only affect incentives to separate where the decision is already finely balanced.<sup>35</sup>

32. As with work incentives, the volatility of maintenance means that changes to disregard policy are unlikely to be a factor in the breakdown of relationships. Many events and factors play a part in the creation and ending of relationships. The 2001 CSA client survey asked respondents for the main reason for separating from their partner: no client said that it was because they would be better off financially.<sup>36</sup> A review of European evidence found that the influence of benefit levels on family behaviour and decision-making was small, as benefits are only one part of a wider incentive package.<sup>37</sup>
33. For many parents with care, child support is a small amount and so would have a marginal impact on their household income. Partners who separate face higher living costs running two individual households than they do if they remain together. This is a strong counterbalance to any potential gain in available income, given that the average maintenance liability is only £20 a week (£24 on the new scheme).
34. Child support is only likely to be a significant factor where the non-resident parent has a high income. However, in such cases, disregards are unlikely to outweigh the strong financial incentive for the parent with care to remain in the relationship. Separation typically means a large drop in income for the parent with care. There is considerable evidence demonstrating the often substantial drop in the standard of living likely to be experienced by carers and children.<sup>38</sup> Evidence suggests women's net income declines by as much as 18 per cent following separation.<sup>39</sup> Some 48 per cent of children in lone-parent households are in poverty (after housing costs) compared to 20 per cent in couple households.<sup>40</sup>
35. Concern about the influence of government financial support on relationships would be better addressed through increasing support for couples in the tax and benefits system by using levers that have a greater impact on household income, for example developing couple premiums.

### Addressing high-income cases

36. Disregarding maintenance is unlikely to encourage higher-income couples to separate. As discussed above, the impact of disregards does not outweigh the financial incentive to remain together. Yet there is a risk that a full disregard would allow a small number of parents with care to claim Income Support while also receiving high levels of maintenance from a wealthy ex-partner. If maintenance

was fully disregarded, there would be no bar to the parent with care claiming benefits. This would apply only to a small group of clients, but a safeguard is needed to prevent parents with care in receipt of large amounts of maintenance from also receiving significant financial support from the state.

37. Parents with care claiming Income Support could be required to declare any maintenance received above a high threshold. Above this level, maintenance would be taken into account in the benefit calculation. In practice, it is likely that many parents with care receiving large amounts of maintenance would choose not to claim Income Support. When deciding the level of the threshold and how to implement it, minimising the administration required should be a high priority. The aim should be to capture only a limited number of people with a light-touch process consistent with other procedures in the benefit system. As long as the threshold is set at more than £40 a week, there will be no significant difference in the impact on child poverty between this approach and a full disregard in Income Support.
38. Currently, maintenance is fully disregarded when calculating Child Tax Credit. Setting a high threshold for declaring maintenance in Income Support would leave an inconsistency between the two types of state support. The Government could consider the option of limiting the disregard in Child Tax Credit, although further work would be needed to assess administrative feasibility.

**Recommendation:**

- a) **Disregard child support up to a high threshold in calculating Income Support.**
- b) **Disregard child support entirely in calculating Housing Benefit and Council Tax Benefit.**