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PRIME MINISTER

LONE PARENTS AND CHILD MAINTENANCE

You have an ad hoc meeting of Ministers on Tuesday to consider the proposals which Departments have been working on following your announcement in the National Children's Home speech. You may like to take a look at these papers over the weekend, particularly as we are aiming for you to announce the main proposals to the 300 Group on Wednesday.

I enclose:

- Flag A Handling brief from Muir Russell in the Cabinet Office. This issue has produced a lot of paper and you will find Muir's brief very helpful in summarising the proposals and highlighting the key decisions. However, the brief suggests that the Lord Chancellor's comments cast some doubt over your being able to make an announcement on Wednesday. Andrew Dunlop (see below) is reassuring on this point, having spoken to the Lord Chancellor's office;
- Flag B A brief from Andrew Dunlop. By and large he agrees with what is proposed by Mr Newton and sees no difficulty with an announcement on Wednesday. His only main point of disagreement is that he feels a nominal sum should be deducted from the income support of absent fathers to cover maintenance. Andrew supports Mr Newton's proposal to include some incentive in the system for parents on income support to return to work but suggests a compromise if the Treasury are unhappy with the cost;
- Flag C A paper from Mr Newton setting out the proposals. You will recall the difficulty you had in getting things moving in this area. Mr Newton has now come up with some very far reaching and constructive proposals and you might like to make a point of praising him for it.

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Whether has been checked correctly

Flag D A minute from the Lord Chancellor raising some relatively detailed points. He is the only colleague so far to comment. - no further comments received today

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Caroline Slocock  
13 July 1990





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PRIME MINISTER

CHILD MAINTENANCE

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Introduction

At the meeting which you chaired on 20 February, you commissioned work on a new system to manage child maintenance, with the aim of making assessment simpler and quicker, and collection and enforcement more effective.

2. The report prepared by my officials in conjunction with those in colleagues' departments is attached, with a management summary highlighting the main proposals. There is obviously much still to be done on working up the detail, and precise figures will need further discussion between myself and Norman Lamont. But I have no doubt that the proposals do provide a firm foundation on which to base action to reinforce our objectives in this important area of family policy.

Present System: the need for change

3. The present system is not delivering the goods in the way that we should all like to see. Assessments are not consistent; they often do not bear any strong relationship to the actual costs of maintaining a child even when there is prima facie evidence that the liable person would be able to afford to pay more; and there is no standard method of review. Collection and enforcement procedures do not work sufficiently promptly or reliably. The net result is that fewer than one third of children who have a person liable to maintain them are actually in regular receipt of maintenance.



4. We must devise new arrangements which will deliver a better product equally to all children where maintenance is an issue, whether they are on benefit or not, so as to reinforce the personal responsibility which all parents have towards their children. The arrangements should be capable of dealing not only with fathers who irresponsibly desert their families, but also with the wide range of circumstances where partnerships break down with children involved; and indeed, at the opposite end of the spectrum with mothers who leave their families or who choose to cut themselves and their children off from further contact with the father.

#### The Wider Context

5. Any new system of maintenance must be seen in the context of the review of the family justice system on which the Lord Chancellor is already embarked. I believe the recommendations of the report are fully consistent with the principles and aims of that review. I am equally sure, however, that we can look at maintenance separately from the timetable for implementing all aspects of that review, and take early action on it.

#### Proposals for Change

6. The remainder of this minute comments on the major issues on which we need to take decisions now in order to carry that action forward. My proposals rest first and foremost on establishing more clearly the proper responsibility of parents, and a proper boundary between these individual responsibilities and those of the state. But there is, too, a strong practical case for them on financial grounds. Even allowing for the start-up and running costs of the child support agency I propose, and of some measures, at a cost slightly under £80 million, to improve incentives, our programme of initiatives (including savings from measures put in place from this year) will together yield over £250 million net a year in the longer term. Even without the savings from this year's measures, the additional net overall savings would still be around £175 million.





(a) Assessment by Formula

7. First, you asked us to look at whether an effective formula could be devised so that assessment should be, as far as possible, an objective administrative process.

8. Although work remains to be done on its precise construction, I am confident in the light of the work already carried out that such a formula can be devised. It should be based on Income Support levels: this is consistent with our other policies on family support, and it builds in a method of review. Moreover, any other approach would undermine the basis of the Income Support personal allowances by giving status and credence to a different measure of the "needs" of children.

9. Such a formula would be suitable for administrative assessment. It can be so precisely drawn that the intervention of a judicial decision is not required; and an independent appeal mechanism can be set up, in accord with many precedents, to tribunals or commissioners appointed for the purpose. It would thus be possible to move the whole process out of the courts, making it both more rapid and less adversarial. Administrative assessment of maintenance, relieving the burden on the courts, would in itself be a significant gain, and I suggest we proceed on this basis.

(b) A Child Support Agency

10. The second major issue is the machinery through which the process of assessment would be carried out, together with the associated work of collection and enforcement. I recommend that this should be the responsibility of a single administrative unit with all necessary powers.

11. There is a strong case for such a unit being a self-standing "Next Steps" Agency, and I recognise the force of officials' arguments that Ministerial oversight of that Agency should belong to me. An early decision on which department is to own such an agency is vital: the timetable for implementation which I set out later in this minute is feasible only if work starts at once. It will also be essential that additional provision be made for start-up costs of such an



agency, which are estimated at around £90 million over 6 years, and for ongoing administrative costs (which will come to about £60 million gross per year in the longer term).

### Other key issues

12. Formula-based assessment and a purpose-built agency are the two key strategic elements in an effective reform. But there are a number of other important issues which we also need to resolve. These are incentives, the position of 'liable relatives' who are themselves on benefit, and 'naming the father'.


### (c) Incentives

13. The fact that more effective collection of maintenance represents a good deal for the taxpayer will, of course, be an important selling point. But it will be much harder to present our proposals positively, and to maintain the wide support which exists for such measures, if they are capable of being portrayed as designed only to reduce the benefits bill.

14. Nevertheless, having looked closely at the balance of arguments, I have concluded that a general maintenance disregard for Income Support would not be the right course. The incentive effects are perverse, since it would be likely to raise rather than reduce the numbers of lone parents substantially dependent upon it. And the deadweight costs are very high. I therefore propose instead that we should focus on a maintenance disregard for the in-work benefits, where the incentive effects are consistent and powerful, and where it would give long-term advantages which represent good value for the cost.

15. This will be particularly important for Family Credit, which for many lone parents is a crucial ingredient in making the transition from dependence on Income Support into work will be by means of part-time work accompanied by receipt of Family Credit. Increased maintenance will help that transition, but under present arrangements the caring parent and the children would see little or no tangible financial benefit because the tapers are so high - as much as 96 per cent if the family is receiving Family Credit and Housing Benefit and Community Charge Benefit together. A disregard would alleviate this.





16. A reduction in the hours of work needed to qualify for Family Credit would have further incentive effects. Many women with small children are not able to work more than a relatively small number of hours, because of their child care responsibilities. Incentives to part-time work would prompt their re-entry into the labour force, providing them with experience to enable them to obtain full-time work when the children are older.

17. The detailed working of incentive measures will obviously have to be discussed in the PES round. But I hope we can agree that incentive measures along those lines should be essential features of our package, to be set out in detail in due course.

(d) Deduction from Benefit

18. I have also considered carefully whether assessment of maintenance by the formula should extend to deducting maintenance from those who are themselves receiving Income Support. On balance, I have concluded that it should not. The rates of benefit currently in payment are specifically intended to meet the normal day to day expenses of the household for whom benefit is claimed, and we defend them from criticism on those grounds. It is not possible to argue that they include any element for the expenses of children not living the household, and a move to deduct for such expenses would therefore be seen as unfair and illogical. This criticism would be re-inforced if we deducted sums from absent parents' benefit while allowing no disregard of maintenance income to all caring parents, so that the net result, where all involved are on Income Support, was simply a reduction in the amount of benefit (and total income) for the parents and children taken together.

19. We should however, ensure that absent parents are nevertheless formally brought into the system at the earliest opportunity, with their liability established, so that being on benefit is not seen as an escape route and speedy action can be taken when their circumstances change.



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(e) Naming the father

20. I am convinced that, just as a father should not be able to choose to transfer his responsibilities to the taxpayer, so that choice should not be given to the mother without good cause. We should therefore establish a general requirement to co-operate with the obtaining of maintenance. This would include not only providing a name (or circumstantial detail which would assist in identification if the name were genuinely not known) but also a requirement formally to claim maintenance. Some exceptions will have to be made, for example in cases of incest, rape or violence, where there are genuine fears that further contact with the father would be harmful to the health or safety of the children or their mother; but this should not simply be a matter of the mother's personal choice. Where unjustified non-cooperation was found, the sanction would be a reduction of up to 20 per cent in the caring parent's adult Income Support personal allowance.

Timing and Handling

21. If you and our colleagues can agree to proposals along these lines, we have the material for an early announcement. Your speech to the 300 Group on 18 July, linked with an appropriate Parliamentary Answer, would be the ideal opportunity. James Mackay could then seek views from the judiciary and the legal profession.

22. We could then look to the publication of a White Paper this Autumn, setting out proposals in more detail, including the details of how a maintenance formula would work, and how it could be administered. This would pave the way for primary legislation to be introduced early in 1991. On this basis, even though further detailed work would be needed both during and after the passage of the Bill, I believe we could realistically aim to have a child support unit established in some form by the Spring of 1992, although it would not be fully up and running on all its functions before early 1993.





Conclusion

23. I therefore seek colleagues' agreement to the approach I have outlined, and specifically to:

- the introduction of a formula for assessing maintenance, to be operated administratively and based on Income Support rates;
- the establishment of a new separate agency, on 'Next Steps' lines, to operate assessment, collection and enforcement;
- the inclusion in the package of measures designed to increase incentives and reduce total dependence on benefit;
- bringing absent parents who are themselves on Income Support formally into the system, with an assessment, but not making a deduction from that Income Support;
- introducing a benefit sanction for caring parents who unjustifiably refuse to co-operate in tracing the absent parent and obtaining maintenance;
- a timetable along the lines set out in the preceding paragraph.

24. I am copying this to those who will be at our meeting - James Mackay, Geoffrey Howe, Kenneth Baker, Malcolm Rifkind, Peter Fraser, Norman Lamont and John Patten - and to John Major, Peter Brooke, Kenneth Clarke, David Hunt and Sir Robin Butler.

T.A.

12th

July 1990

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## INTRODUCTION

1. This report on maintenance for children follows the clear concern about declining payment of maintenance and the resultant growing obligation on the state. Following the task set by the Prime Minister's meeting on 20 February, the report assesses the present system and proposes a new approach. As Chapter 1 describes, these proposals are part of the Government's programme to review the family justice system.

## THE POSITION NOW

2. Chapter 2 describes various aspects of the current system which give concern. Only 30% of lone mothers receive regular maintenance. Awards vary but fall some way short of the benefit payable to the lone parent family. There is prime facia evidence that higher awards are affordable in some cases. Some awards take weeks or months. At present, consistency, and perceived fairness, will emerge mainly by chance. The children's interests require a single system with consistent and rational principles and clear priority.

## AIMS AND OBJECTIVES

3. Chapter 3 describes three major policy objectives for an effective maintenance system, derived from the Prime Minister's meeting. First, absent parents must not be allowed to avoid their responsibilities for their children and the parent charged with their care. The natural parent has the primary liability even if the child subsequently gains a step-parent. Personal responsibility also requires that maintenance payable should be known and predictable. Secondly, both children and caring parents should benefit. The children's financial interests are best protected if their parents have incentives to increase their income by their own work effort. The third objective is to reduce dependence on benefit, best done by establishing realistic maintenance and regular payment as soon as possible. Seven other objectives, on equity, incentives and operations, are discussed in Annex F to the report.

## ASSESSMENT

4. Known and predictable maintenance awards indicate a system based on published rules rather than discretion. Several other countries have adopted a formula approach. Chapter 4 describes the shape of the formula we believe to be most appropriate in this country. The maintenance bill should be based on the income-related benefit payable for child and caring parent. The parents should have some exempt



income to preserve their work incentives, based on what they would receive on benefit, including any new natural children but not stepchildren unless hardship can be shown. Maintenance then payable should be calculated by applying standard deduction rates between 30% & 50% to net income over and above exempt income. Under this formula, 500,000 lone mothers would receive maintenance compared with 300,000 now. Chapter 4 (paragraphs 4.3-4.7) identifies arguments for and against requiring liable relatives dependent on benefit to pay some maintenance.

#### THE ROLE OF THE COURTS

5. This assessment method allows very precise rule-making, and scope for discretion is very limited. More awards and more frequent case reviews will also increase workload. So we recommend, in Chapter 5, that assessment be a function of an administrative body, with statutory rules and independent appeal rights. The courts would have a continuing role in final decisions on points of law and other issues such as custody. Where property issues also arise, we suggest the courts be required to regard the formula assessment of maintenance as given, and to give the childrens' housing needs first priority. Grounds for appeal would be disputes on facts, law, or claims of inappropriate application of the variation provision. Several appeal systems already exist (eg., industrial tribunals), and we recommend an analogous system for maintenance.

#### COLLECTION AND ENFORCEMENT

6. Chapter 6 recommends collection and enforcement become the responsibility of an administrative child support unit. Its functions would include identifying and tracing liable relatives, obtaining information on the parents' circumstances, raising an assessment under rules laid down and reviewing assessments regularly. Its powers should include power to decide on method and frequency of payment, including deduction from earnings where there is evidence that other methods (e.g. standing orders) are unreliable or unavailable.

7. To reduce or prevent dependence on benefit as far as possible, we recommend the system be compulsory for any maintenance recipient claiming benefit, and available to lone parents leaving benefit or those who would be dependent if maintenance failed. Where benefit was not an issue, either party could seek assessment and collection by the unit, or assessment only, for a fee. We also propose that a caring parent receiving benefit be required to claim maintenance, except where she can convince the unit that further contact with the liable



person will harm the children or herself because of past violence, rape or incest, or that she does not know the father's name or has insufficient information to identify him. Where the unit is convinced there is no good cause for her not to seek maintenance, it should be empowered to reduce benefit by up to 20% (£7.34 pw) for the period of non-cooperation.

8. The unit will need to be accountable to Parliament, and so it should be within an existing Department or a new independent statutory body accountable to a Minister. The chief Departmental candidates are Inland Revenue and DSS for essentially pragmatic reasons. The need not to affect the Department's core business argues powerfully for a separate unit, possibly on the lines of a Next Steps agency. We recommend UK jurisdiction.

#### DELIVERING THE INCENTIVES

9. Better assessment and collection will help improve incentives for the liable person to pay and for the caring parent to seek maintenance and, if she wishes, to work. But disincentives remain since a lone parent receiving Family Credit keeps only 30 pence or less of each £1 maintenance paid. DSS has identified some additional measures to improve incentives, described in Chapter 7. First, a disregard of maintenance in assessing Family Credit and Housing Benefit would make work more attractive and show that children would gain directly from maintenance - a major presentational advantage. Second, the minimum number of hours worked per week to qualify for Family Credit could be reduced from 24 to 16. Third, many lone parents with poor qualifications and work experience could benefit from (e.g.) extension of provision for them within ET. A maintenance formula and improved collection would mean around 40,000 fewer lone parents receiving Income Support. These further measures would take this to some 100,000.

#### A PROGRAMME FOR ACTION

10. Chapter 8 sets out a programme for action. The major principles and general shape of a new system are for Government to determine. If then announced in general terms before the Summer recess, public discussion would follow, promoting understanding and agreement. A White Paper or other public document could be prepared by the Autumn and issued following a major speech. Given an early decision on the way forward, and early and effective organisation, primary legislation could be introduced in New Year 1991. Action to improve the present system meantime is under way. We suggest additional measures to



improve it further and lay foundations for the new system. These include primary legislation as soon as possible to provide that availability of benefit is not relevant when making a maintenance award; and as soon as Parliament provides a formula, courts and DSS to apply it within the existing system, with implementation by April 1992. The new child support unit itself must provide an effective service from the outset. The necessary preparations, including good assessment, management and other systems and education of the public on the new process, indicate a start date of April 1993. The caseload - ultimately 2 million customers involving frequent payments - indicates staged take-on over three years.

#### COSTS AND BENEFITS

11. Given implementation on the timescale suggested, Chapter 9 describes provisional costs and savings which will be refined and validated by Departments including Treasury when Ministers have indicated the way forward. The figures show the cumulative effect of lone parent initiatives from this April. The likely savings - mainly from reduced benefit expenditure - are highly sensitive to precise details of the formula, and to the collection rate which we think it prudent to assume as around 50%. Allowance is made for measures to improve lone parents' work incentives (Chapter 7 and paragraph 9 above), pending further consideration. The estimated total net effect on programme expenditure of changes proposed from April 1990 is savings of £87m in 1991/92, rising to £281m in 1995/96, and over £300m in the long run. Estimated administrative start-up costs total around £90m spread between 1990/91 and 1995/96. With more cases being handled, more frequent review and more collection work, initial estimates suggest overall direct administration costs will rise from about £30m currently by DSS to about £80m under the Agency. This does not, though, include potentially significant savings from taking legally aided work out of the High and County Courts (current expenditure, around £75m a year), on which further work is needed. Estimated overall net savings from the changes reach £261m in the long run.

12. Chapter 10 describes how the proposals serve to advance each of the objectives in Chapter 3.



SOCIAL SERVICES : Updation of  
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