THE HIDDEN PARENT POVERTY TRAP:

Child Maintenance and Universal Credit

The Centre for Social Justice

www.centreforsocialjustice.org.uk

Table of Contents

The Hidden Parent Poverty Trap: Child Maintenance and Universal Credit

Foreword by Rt Hon Iain Duncan Smith MP, Chairman of the Centre for Social Justice

Long-term worklessness is one of the key drivers of poverty in the United Kingdom.

To address this problem, The Centre for Social Justice designed the principles of Universal Credit (UC) in our 2009 paper Dynamic Benefits. We believe UC to be one of the most important public policy reforms in the fight against poverty because of the way it is designed and proven to support more people into work.

It simplifies a number of benefit programmes into a single monthly payment, it reduces structural disincentives to work, and it supports the least advantaged in society to take control of their life. Early results suggest that UC increases the probability that a welfare claimant finds work within 6 months of a claim, that they are more likely to work for more hours and earn more. Despite the political noise around the programme, it is worth noting that UC now has the highest user approval ratings of any benefit previously rolled out with many genuine stories of transformed lives.

But the job is not yet done.

There is an outstanding issue which needs to be resolved so that UC can ensure work always pays. As it is, Universal Credit has had to inherit some problems from previous systems such as the chaotic nature of Tax Credits. This paper highlights in particular the ongoing clash between the old child maintenance system and the new welfare landscape.

It is fundamentally important to the changes in the welfare system that work must always pay and in this paper we recognise that for some, particularly some parents, as a result of those hang overs from other benefits it still does not.

During my time as Secretary of State for Work and Pensions we looked closely at the Income Shares model used in Australia and elsewhere as a solution for this, but were unable to get agreement from the government at the time to change the system.

With the core UC building blocks now in place, it is the right time to revisit this idea and ask if we can make changes and continue to build on Universal Credit making further strengthening this life changing reform.

Rt Hon Iain Duncan Smith MP

CSJ

Executive Summary

Child maintenance is the money one parent pays to help support the main carer with their child's day-to-day living costs after separation. Often, child maintenance arrangements are organised by separated parents informally - known as a family-based arrangement. However, when parents are unable to reach agreement, the carer may turn to the Government's statutory service to arrange the support to which they are legally entitled.

In this research, we find that the level at which statutory child maintenance payments are set simply cannot be met by some low-income "paying parents". We also find that the way Universal Credit (UC) interacts with child maintenance can result in significantly reduced incentives to work.

In its 2014 report, *Fully Committed? How a Government could reverse family breakdown*, the Centre for Social Justice (CSJ) highlighted issues with child maintenance calculations and the problematic interaction between child maintenance and UC, calling for a change in child maintenance legislation to address the problems. [1]

But these issues have not been resolved. Current legislation on payment calculations relies on weekly net income levels set in 1998, forcing paying parents to pay a percentage of their income before they have attained the standard of living the 1998 levels were intended to achieve. The resulting liabilities hamper the ability of many low-income paying parents (paying child maintenance according to the rules) to maintain an adequate standard of living and contact with their children. Indeed, when children do have contact, they are often doing so in a context of severe financial hardship.

Disincentivising work undermines the Government's efforts to increase the number of people in work. The interaction of child maintenance and UC means that paying parents may find that work does not pay, though the previous system resulted in even higher marginal tax rates than UC creates.

The scale of this problem should not be underestimated. The income distribution of the 1,128,400 paying parents indicates that around 57 per cent have a net income of under £9,500 - an income level at which they may still be receiving UC. Therefore, once UC is fully rolled out, **638,900** paying parents could be caught up in this interaction.[2]

We agree that children's welfare is of paramount concern and that the initial child maintenance scheme was set up with noble intentions. The 2003 child maintenance scheme, set out in the 1998 Green Paper, *Children First*, established that paying parents should "*keep enough of their income to maintain an adequate standard of living*"[3]. But, as we outline in this paper, the reality is quite different.

Parents caught up in this system can face effective marginal tax rates of over 100 per cent, meaning that they do not see the financial rewards of their work - thus undermining one of the key improvements to social security introduced by UC. In this paper, we make four recommendations to resolve these issues and realise the full potential of the new system.

Andy Cook, CEO, Centre for Social Justice

1 Centre for Social Justice, Fully Committed? How a Government could reverse family breakdown (2014), p. 85. Available at: https://www.centreforsocialjustice.org.uk/library/fully-committed-government-reverse-family-breakdown [Accessed 4 Jul. 2018].

2 These numbers are from the CSA and not the CMS. The CMS has yet to publish any similar statistics - see comments on p.11 below.

3 Voiceofthechild.org.uk. Available at: https://voiceofthechild.org.uk/wp-content/uploads/2017/09/Appendix-A.pdf [Accessed 4 Jul. 2018].

Introduction - *the hidden parent poverty trap*

The concept of child maintenance is founded on the important principle that after separation, the parent without the main care of the child should continue supporting their child. We rightly expect parents to take responsibility for their children and this includes providing financial support. Alongside this principle we also understand the importance of the parents' ability to pay when it is applied to a "paying parent"[4] on a low income to begin with. This report sets out how the interaction between UC and child maintenance can result in punitive marginal tax rates in excess of 100 per cent for paying parents on low incomes, both removing all incentives to work and resulting in less money for these parents to support their children.

The CSJ estimates that once UC is fully rolled out, more than 600,000 parents paying child maintenance - more than half of all paying parents - will face marginal tax rates up to 107 per cent when child maintenance and UC are taken together. While UC has improved the situation for paying parents, incentives to work are still all but removed when child maintenance is accounted for. This reduces the ability of the paying parent to earn more money to support their children and escape poverty.

This is compounded by outdated minimum income thresholds for the payment of child maintenance which were set in 1998. Unlike many countries, the UK has no "self-support" reserve factored into calculations; instead, minimum income thresholds for payment are set out in legislation which is now twenty years out of date. There has been no adjustment to take into account inflation over that period. This means paying parents are no longer able to maintain the standard of living they were initially intended (in law) to have and many face financial hardship.

Balanced alongside this are the needs of the parent with care and the children. A simple up-rating to reflect inflation would result in these parents (mainly mothers) receiving less. It is for this reason that up-dating the child maintenance thresholds is not a straightforward solution. Instead, re-investment in UC and wider reform of the child maintenance system is needed to support the 600,000 (mainly) fathers caught in this hidden parent poverty trap.

Increasingly, shared care is the adopted arrangement of separated families with both parents sharing some of the care of children. While data is limited, evidence from government datasets suggest that almost two thirds of non-resident fathers have significant contact and involvement with their children.[5]

This paper sets out the extent to which these factors taken together increase levels of poverty following family breakdown. We are asking for the Government to assess the full impact of child maintenance payments for low income parents in receipt of UC when it is fully rolled out to ensure that work incentives are restored and paying parents are better able to support their children.

4 The parent without the main care of the child who is required to pay child maintenance

5 CSJ calculations using CMS data. Child Maintenance Service: Aug 2013 to Mar 2018 (experimental). [online] Available at: https://www.gov.uk/government/statistics/child-maintenance-service-aug-2013-to-mar-2018-experimental [Accessed 7 Sep. 2018].

Overview of Child Maintenance

In short, "*child maintenance is regular, reliable financial support that helps towards a child's everyday living costs. In most cases, the parent who does not have the main day-to-day care of the child pays child maintenance to the parent who does have the main day-to-day care.*" [6]

Prior to the Child Maintenance and Other Payments Act 2008, this meant a compulsory engagement with the Child Support Agency (CSA), which calculated and collected maintenance payments irrespective of whether or not parents were willing and able to make their own private arrangements. As Sir David Henshaw acknowledged in 2006, the existing child support system was "*designed primarily to reclaim money for the taxpayer when parents with care [were] on benefits.*"[7]

The last Labour Government's acceptance and implementation of Henshaw's key recommendation, that "*the state should only get involved when parents cannot come to agreement themselves, or when one party tries to evade their responsibilities*"[8], radically altered the environment in which parents arranged post-separation financial provision for their children. Since 2008, all parents have been free to make their own private arrangements for child maintenance, with the state offering a statutory scheme for those parents unable or unwilling to come to a private agreement.

This move away from state direction was built upon by the Coalition Government which introduced a "gateway conversation" with the DWP's Child Maintenance Options service, (intended to encourage parents to consider whether they are in a position to set up a family-based maintenance arrangement without applying to the statutory child maintenance scheme) and charging mechanisms designed to incentivise the private transfer of maintenance payments between parents.[9]

6 Assets.publishing.service.gov.uk. (2018). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/672432/how-we-work-out-child-maintenance.pdf [Accessed 17 Aug. 2018]. p. 2.

7 Henshaw D, Recovering Child Support: routes to responsibility (London: The Stationery Office, 2006), p. 16.

8 Ibid. p. 5.

9 The Child Support Fees Regulations, 2014.

Child Maintenance Calculations

Calculating the amount payed to the "parent with care" is a complex process with multiple factors considered, including shared care and the number of other children the paying parent is responsible for[10]. There are five rates of pay depending on the paying parent's gross weekly income.

1. **Nil rate** - when gross weekly income is less than £7, the paying parent pays nothing.
2. **Flat rate** - when gross weekly income is £7-£100, the paying parent pays £7 a week.
3. **Reduced rate** - when gross weekly income is £100-£200, the paying parent pays £7 on the first £100 and different rates between £100 and £200 depending on the number of children.
4. **Basic rate** - when gross weekly income is £200-£800, the paying parent pays varying rates depending on the number of children.
5. **Basic plus rate** - when gross weekly income is £800-£3,000, the basic rate applies for the first £800, and the Basic Plus rate for earnings above £800.

There is an additional twenty per cent collection fee if a paying parent uses the Collect and Pay method - the payment service provided by the Child Maintenance Service. If they use the Direct Pay Service - a direct transaction - there is no charge. As of March 2018, there were 239,800 parents using Direct Pay and 114,800 using Collect and Pay.[11]

Table 1: Child maintenance rates

		Percentage of Gross Weekly Income Paid		
RATE	**GROSS WEEKLY INCOME**	**1 CHILD**	**2 CHILDREN**	**3+ CHILDREN**
Basic plus	£800 - £3000	Basic +9% above £800	Basic +12% above £800	Basic +15% above £800
Basic	£200 - £800	12%	16%	19%
Reduced	£100 - £200	17% *(£7 on first £100)*	25% *(£7 on first £100)*	31% *(£7 on first £100)*
Flat	£7 - £100	£7	£7	£7
Nil	less than £7	£0	£0	£0

10 Child Maintenance Service. Available at: https://www.gov.uk/government/publications/how-we-work-out-child-maintenance [Accessed 17 Jul. 2018].

11 Child Maintenance Service Statistics. Available at: https://cmsdash.herokuapp.com/index.html [Accessed 17 Jul. 2018].

Unaffordable Child Maintenance Liabilities

If children are to experience close, stable, and meaningful relationships with both parents after separation, both parents need to be able to meet their own and their children's basic needs. Our findings strongly suggest that current maintenance liabilities calculated under the 2012 regulations simply cannot be met by some low-income paying parents. Crucially, unlike in other countries, there is no self-support reserve - an amount that provides the parent with some money to support themselves with[12].

We expect that most paying parents will be over the age of 25. As such, we use the National Living Wage (NLW) of £7.83 [13] for our calculations that those over 25 are entitled to, instead of the National Minimum Wage (NMW) of £7.38 for those younger than 25. For those paying parents under 25, the severity of the problem may be worse than indicated here.

The following excerpts are representative of evidence submitted by paying parents regarding the problems with the Child Maintenance Service:

> *I have no way of knowing how I will be able to deal with this debt and feel I am on the brink of losing everything.*[14]

> *The problems paying parents face are severe financial hardship, mental stress and anguish, I was talked out of suicide 2 days ago because of this situation I'm facing as I seen suicide as the only logical way to deal with this!*[15]

> *Since the CSA switched over to the CMS my whole experience has been a harrowing, stressful one which more or less nearly put me into an early grave, if it wasn't for my family. Since the CMS have been involved, somewhere along the lines I have accumulated approx. £800 pounds worth of "arrears" which I know are false.*
>
> *The CMS can't give me exact details of these and therefore I have submitted every bank statement from Jan-15 to today's date to help support my case. The CMS have incorrectly informed PWC of these "arrears" and she is constantly hounding me for these which I do not know off. I do understand I have accumulated some arrears.*[16]

12 For example, Australia has a self-support allowance of one-third of male average weekly earnings.

13 https://www.gov.uk/national-minimum-wage-rates

14 Written evidence to Work and Pensions Select Committee (2016). Available at: http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Work%20and%20Pensions/Child%20maintenance%20services/written/36505.html [Accessed 20 Aug. 2018].

15 Written evidence to Work and Pensions Select Committee (2016). Available at: http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Work%20and%20Pensions/Child%20maintenance%20services/written/37752.html [Accessed 20 Aug. 2018].

16 Written evidence - Anonymous. [online] Available at: http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Work%20and%20Pensions/Child%20maintenance%20services/written/37962.html [Accessed 4 Sep. 2018].

The unaffordability of the liabilities is partly due to the outdated gross weekly income thresholds of £100 and £200 initially set by the 1998 Green Paper, *Children First* as net weekly income thresholds.[17] These thresholds were applied in the 2003 Scheme, three years later than originally planned, and carried over as gross weekly thresholds to the 2012 Scheme. It is worth looking at what those values meant in the year 2000, when they were planned to come into force, to appreciate how they corresponded to their original context:

- The lower threshold of £100 corresponded to the net earned income from approximately 30 hours work per week at NMW[18], suggesting that paying parents were only expected to pay more than the flat rate when they were earning enough to at least support themselves. Indeed, the stated intention of the Green Paper was that the paying parent should "*keep enough of their income to maintain an adequate standard of living*"[19].
- The upper threshold of £200 corresponded to the net earned income from 35 hours work per week at twice NMW, suggesting that paying parents only began to pay the full amount when they were working full-time and earning significantly above NMW.

The Scheme made no provision for the upgrading of these threshold values with the passage of time - an upgrading that was essential if the original intention of ensuring that paying parents were able to support themselves as well as fulfil their liabilities, was to be achieved.

The 1998 values detailed above remained in place in the 2003 Scheme, and continued into the 2012 Scheme. The 2012 Scheme likewise makes no provision for any upgrading. Currently:

- The lower threshold of £100 gross corresponds to the earned income from approximately 13 hours of work at the NLW [20].
- The upper threshold of £200 gross corresponds to the earned income from approximately 27 hours work at the NLW.

If the initial intent of the 2003 scheme were to be preserved, the corresponding threshold values for the 2018-19 tax year would be a gross weekly income of £234.90 and £548.10 (30 hours at NLW of £7.83/hour and 35 hours at twice the NLW). So until a paying parent's gross weekly income was £234.90 they would only pay the flat rate of £7 (or an inflation-adjusted nominal sum).

Paying parents whose income is such that they should be paying only the flat rate are instead required to pay the much higher basic rate. This can leave them with few resources to meet their own essential living costs, and to care for the children when they are with them.

Our calculations confirm that child maintenance payments can drive paying parents below the Government's poverty line - 60 per cent of median household income. While the CSJ has previously pointed out the inherent problems with this measure of poverty, it is useful for illustrative purposes in this instance. Table 2 demonstrates how an example paying parent's[21] disposable income changes as they increase hours worked. Increments of 13 and 26 hours a week are used as they roughly align with the £100 and £200 thresholds used in child maintenance calculations.

17 Voiceofthechild.org.uk. Available at: https://voiceofthechild.org.uk/wp-content/uploads/2017/09/Appendix-A.pdf [Accessed 4 Jul. 2018].

18 The NMW had been introduced in 1999 at £3.60 an hour (see National Minimum Wage Regulations, 1999)

19 Voiceofthechild.org.uk. Available at: https://voiceofthechild.org.uk/wp-content/uploads/2017/09/Appendix-A.pdf [Accessed 4 Jul. 2018].

20 The minimum amount for those over 25

21 Single paying parent over 25, paying for three children through Collect and Pay, on NLW (£7.83), paying the national average for social and affordable rents for the 2018/2019 tax year.

Table 2: Weekly Disposable Income[22]

Hours per week on NMW (£7.83)	0	13	26	40
Gross earnings		£102	£204	£313
Net earning		£102	£199	£278
Universal Credit	Base element: £73 Housing element:[23] £87	£96	£35	£0
Net income	£161	£198	£234	£278
Equivalised net income [24]	£218	£274	£328	£393
Child maintenance	-£8	-£9	-£47	-£71
Disposable income	£152	£189	£188	£207
Equivalised disposable income [25]	£205	£261	£258	£287

Disposable income is the income that is left after taxes are deducted and receipt of UC payments. The equivalised disposable income is the disposable income divided by the number of household members converted into equivalised adults. This is done by weighting each person according to their age. [26] Equivalised disposable income is important because a household with fewer people will need less income to maintain the same standard of living as a household with more people.

Median household net disposable income in 2016/2017 was £494 a week before housing costs. [27] The poverty line is understood by the Government as 60 per cent of the median household income, which stands at £296 a week. As Table 2 shows, at 26 hours of work at the NLW (£7.83) a paying parent is above the poverty line with an equivalised net weekly income of £328. However, after taking child maintenance payments for 3 children through Collect and Pay into account, the equivalised disposable income is only £258 a week - considerably below the poverty line. In fact, even working 40 hours a week is not enough. The paying parent starts with an equivalised net weekly income of £393, but after child maintenance is paid, they are left with an equivalised disposable income of £287.

It may be said that paying parents would pay this amount anyway to raise their children had they not separated. However, the crucial difference is that once separated, the paying parent household no longer receives financial support from the government for the children, even if the care is shared.

22 All numbers to the nearest £1

23 National average of social and affordable rents from https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies.

24 Household income and inequality: Where do you fit in? [online] Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/householdincomeandinequalitywheredoyoufitin/2016-02-23 [Accessed 3 Sep. 2018].

25 Ibid

26 Glossary: Equivalised disposable income - Statistics Explained. Available at: http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Equivalised_disposable_income [Accessed 17 Aug. 2018].

27 Assets.publishing.service.gov.uk. (2018). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/691917/households-below-average-income-1994-1995-2016-2017.pdf [Accessed 21 Aug. 2018].

Universal Credit

Universal Credit is revolutionising welfare in the UK. Rolling a number of benefits into a single payment, accessible online, UC provides better support for individuals to find, sustain and progress in employment and become more independent. The current monthly standard allowance in UC ranges between £251.77 and £498.89, depending on the individual's employment status and their obligations or responsibilities.[28] UC is a dynamic benefit system where payments respond to changes in an individual's net income. As a claimant moves into work and their earned income increases, UC payments are tapered down. For every additional £1 of net earnings the payment reduces by 63p, though this is conditional upon other circumstances (responsibility for children, for instance) in which case there are allowances.[29] UC treats paying parents as single adults and does not factor in child maintenance payments to its monthly award.

The recent budget has indicated that the Government will invest more in UC work allowances and the transition onto UC. This is a welcome announcement but will not change the result of the interaction of child maintenance and UC.

Interaction between Child Maintenance and Universal Credit

As the CSJ have long argued - and as is now well recognised by government - work can provide a key route out of poverty. A Department for Work and Pensions (DWP) study tracing out-of-work families found that just under three quarters of families (74 per cent) who gained full-time employment were found to have 'exited' relative poverty a year on.[30] Those most likely to have 'exited' poverty by this (admittedly imperfect) measure were children in families that had increased their earnings by moving from part employment to full employment (75 per cent).[31]

However, under current system, paying parents on UC can find themselves little better off financially if they move into work than when they were unemployed once child maintenance payments are taken into account. Moreover, once in work, increasing hours may not translate into a bigger pay packet. For some parents, increasing work can lead to child maintenance payments increasing and UC payments decreasing such that the paying parent has an effective marginal tax rate (EMTR) of over 100 per cent.

This system undermines one of the key and welcome improvements introduced by UC - to make work pay. This is of particular concern given the number of paying parents in living poverty.

An EMTR measures the combined effect of taxation and the withdrawal of benefits when income increases by £1. If the EMTR exceeds 100 per cent, the individual is worse off and the incentive to work is dramatically reduced. It should be noted that while this interaction may result in high EMTRs, the benefits system that UC is replacing results in even higher EMTRs for those paying child maintenance at the reduced rate - up to 122 per cent.

While UC has relieved some of the pressure, the problem persists and the Government should be more ambitious in making work pay for these parents.

28 GOV.UK. (2018). Universal Credit. Available at: https://www.gov.uk/universal-credit/what-youll-get [Accessed 21 Aug. 2018].

29 GOV.UK. (2018). Universal Credit. Available at: https://www.gov.uk/universal-credit/what-youll-get [Accessed 21 Aug. 2018].

30 DWP, Child poverty transitions: Exploring the routes into and out of child poverty, 2009-2012, Jun 15 [www.gov.uk/ government/uploads/system/uploads/attachment_data/file/436482/rr900-child-poverty-transitions.pdf]

31 With 'full employment' defined as lone parents working 30 or more hours per week, or couples where both parents are working and at least one of them is working 30 or more hours per week; and 'part employment' defined as lone parents working fewer than 30 hours per week, couples both working fewer than 30 hours per week, or couples with one parent working the other workless.

Table 3 illustrates the EMTRs a paying parent may face; the additional 20 per cent is for those paying through Collect and Pay as opposed to Direct Pay.

Table 3: Effective Marginal Tax Rates[32]

	Maintenance Scheme	Effective Marginal Tax Rate % 1 Child	2 Children	3 Children
Reduced rate, before NI due (with Council Tax support)	2012	87.4	95.4	101.4
	2012+20%	90.8	100.4	107.6
Basic Rate, paying NI and tax	2012	86.8	90.8	93.8
	2012+20%	89.2	94.0	97.6

- If gross weekly income is below £100, UC is withdrawn at a rate of 63p in the pound and Council Tax Reduction [33] at 7.4p as income increases, resulting in an EMTR of 70.4 per cent.
- If gross weekly income is between the £100 threshold and the threshold for national insurance, for every extra £1 of income, UC is withdrawn at a rate of 63p in the pound, Council Tax Reduction at 7.4p, and child maintenance is increased by 17p, 25p, or 31p in the pound (for 1, 2, or 3 or more children respectively). This means that the paying parent has an EMTR of 87.4, 95.4, or 101.4 per cent. For each extra £1 earned, a paying parent gains 12.6p, or 4.6p, or is 1.4p worse off. If the 20 per cent collection fee applies, the EMTRs are 90.8, 100.4, or 107.6 per cent.
- Once the £200 gross weekly income threshold is reached and the threshold for income tax, for every extra £1 of income, national insurance, income tax, and UC withdrawal take 74.84p in the pound and child maintenance is increased by 12p, 16p, or 19p in the pound (1, 2, or 3+ children). As such, the paying parent has an EMTR of 86.8, 90.8, or 93.8 per cent. If the collection fee applies, the EMTR increases to 89.2, 94.0, or 97.6 per cent. This will continue until UC payments stop.

To give the worst-case scenario, a paying parent on UC, paying for three children through the CMS collection service, would be 7.6p worse off for every extra £1 earned as the weekly income passed £100. If the parent earned enough to pay income tax they would gain just 2.4p for every extra £1 earned, and would continue at this level until UC payments stopped.

Figure 1 demonstrates how net weekly income change as gross weekly earnings change for a parent paying child maintenance and for an individual not paying child maintenance. For the individual not paying child maintenance, at £150 gross weekly income UC and council tax reduction[34] take 70.4p in the pound. For the parent paying child maintenance at £150 gross weekly income UC, council tax reduction, and child maintenance payments including the 20 per cent collection charge take 107.6p in the pound.

The model is for a paying parent over 25-years old on the NLW, paying child maintenance for 3 or more qualifying children (QC) for the 2018/2019 tax year, with the 20 per cent charge. Housing costs are based on the national average of social and affordable rents.[35]

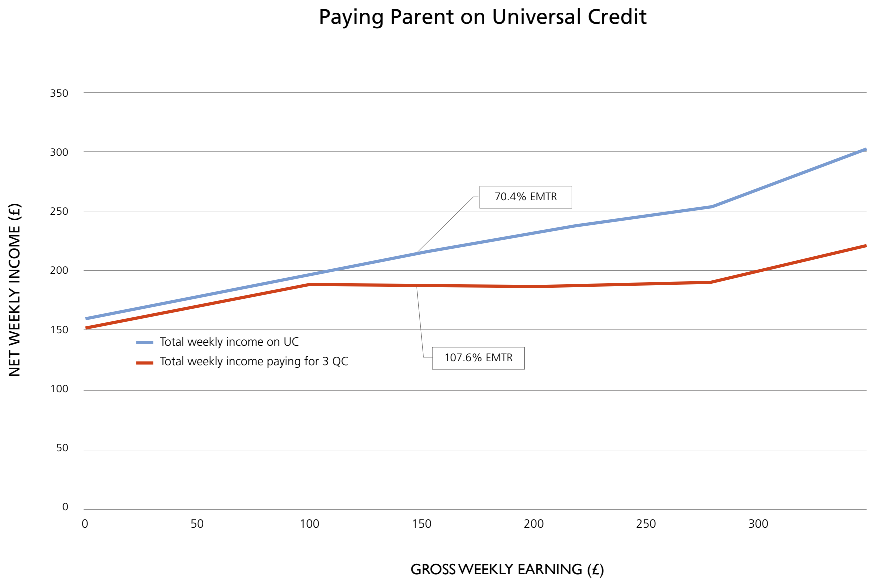
32 Written evidence from Dr Christine Davies (2018). Available at: http://static1.1.sqspcdn.com/static/f/861186/27299485/1477042951347/DR+Davies+submission+to+Westminster+child+support+enquiry+-+October+2016.pdf?token=VlOI3z6HR3N3iGiFfBa6va57cyk%3D [Accessed 20 Aug. 2018]. p.6.

33 Reductions may vary regionally.

34 Council tax reductions may vary

35 GOV.UK. (2018). Live tables on rents, lettings and tenancies. Available at: https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies [Accessed 17 Aug. 2018].

Figure 1: Paying Parent on Universal Credit



As Figure 1 shows, increases in net income are negligible for gross weekly earnings of £100-£281, because of EMTRs of up to 107.6 per cent, providing little incentive to increase work.

The CSJ has long maintained that work is one of the surest routes out of poverty and that the Government should ensure that work always pays. UC was designed for this purpose. Although UC succeeded in decreasing the EMTR in the reduced rate region, it is still too high. The incentive to move into work or increase work to escape poverty is all but removed by this interaction, where paying parents may face an EMTR of over 100 per cent.

Anecdotal evidence suggests as much:

> *I've been forced into bankruptcy because of this agency… It's getting to appoint that I dread receiving mail and have considered suicidal... I've now had to give up work it as it does not pay me to work. The harder I work the more [they] take leaving me to struggle all the time.*[36]

Unless changes are made to the statutory maintenance calculation schemes, paying parents will continue to find that supporting themselves is difficult, let alone supporting children on overnight and other stays. Although we wholly support the contributory principle of child maintenance, the fundamental flaws in the system which we have identified run the risk of exacerbating paying parents' absence or children's experience of financial hardship while in their care.

36 Data.parliament.uk. (2018). Written evidence - Anonymous. Available at: http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Work%20and%20Pensions/Child%20maintenance%20services/written/36005.html [Accessed 20 Aug. 2018].

Nor is this problem insignificant in magnitude. A Freedom of Information request showed that, of 1,128,400 live and assessed CSA cases in March 2012, 518,700 (46 per cent) were not in employment, 120,200 (11 per cent) had an annual net income of less than £9,500, and a further 170,400 (15 per cent) had an annual net income of between £9,500 and £14,000[37].

While we recognise that the Child Maintenance Service (CMS) has replaced the CSA[38] and that these numbers are no longer current, the CMS has not published a similar breakdown and until newer evidence suggests otherwise, these figures provide at least a rough indication of the income-level of paying parents, and the potential extent of the problem once UC is fully rolled out and the CSA case closure process is complete. Given that a net income of £9,500 (even once inflated from 2012) is low enough to still be in receipt of UC when receiving the housing component, it is possible that once UC is fully rolled out, **638,900**, or over half of all paying parents, could be caught up in this interaction and face EMTRs between 87 and 107 per cent.

37 Written evidence from Dr Christine Davies (2018). Available at: http://static1.1.sqspcdn.com/static/f/861186/27299485/1477042951347/DR+Davies+submission+to+Westminster+child+support+enquiry+-+October+2016.pdf?token=VlOI3z6HR3N3iGiFfBa6va57cyk%3D [Accessed 20 Aug. 2018]. p. 4

38 The CSA has not fully closed so the CMS case load will continue to rise as that Case Closure process continues.

CSJ Recommendations

We welcome the recent recognition from the DWP in The Child Maintenance and Compliance Arrears Strategy that these problems exist and we welcome the commitment to investigate further and work with the stakeholder group concerned.[39] To this end, the Government should publish statistics on the current number of paying parents who are on UC and pay child maintenance, including projections of this number once UC is fully rolled out so that the extent of this problem can be fully established. But more is required.

Recommendation 1: Ministers at the DWP should commission an urgent review on this issue and release any statistics on the current number of paying parents who are on UC and pay child maintenance, including projections of this number once UC is fully rolled out so that the extent of this problem is fully established

Although UC has reduced the EMTR at lower income levels resulting from the interaction of child maintenance and the benefit system, more needs to be done so that work always pays and child maintenance payments are affordable. As shown above, the outdated £100 and £200 thresholds are problematic and will be increasingly so in the future. However, while updating these thresholds would benefit the paying parent, it would also negatively impact the parent with care, as they would receive less financial support. Yet the risk of poverty for the paying parent will continue to get worse, so these thresholds need to be addressed.

Given that these thresholds are outdated, but that updating them could the leave the parents with care worse off, we are calling for more radical reform to child maintenance.

In *Fully Committed?*, the CSJ proposed a new statutory system based on an Income Shares Model.[40] Here, we renew this recommendation and propose a new system based on the same principles of the Income Shares Model, versions of which are used in Australia, Norway, and most US states.

While countries apply the Income Shares Model differently, there are several essential features the model exhibits that result in a more equitable system.

Essential features of an Income Shares Model include:

- Each parent is given a self-support allowance.
- The "costs" of the children are worked out according to the age of the children.
- Those "costs" are shared between the parents in proportion to their income above the self-support level.
- The parent's income takes into account the state support received by each parent.
- In some cases, the state support can be shared between the parents.

39 GOV.UK. Child Maintenance: a new compliance and arrears strategy. Available at: https://www.gov.uk/government/consultations/child-maintenance-a-new-compliance-and-arrears-strategy [Accessed 17 Jul. 2018]. p. 20.

40 Centreforsocialjustice.org.uk. (2018). Available at: https://www.centreforsocialjustice.org.uk/core/wp-content/uploads/2016/08/CSJJ2072_Family_Breakdown.pdf [Accessed 17 Aug. 2018]. p. 94

In Australia, an 8-step formula is used to calculating child maintenance. In short, both parents' incomes are combined, after a self-support allowance is given, and each parents' income percentage of the total is worked out. The percentage of care of each parent is calculated and the cost of that percentage of care. By subtracting the cost percentage from the income percentage, the child support percentage is worked out. After the costs of each child are found based on the parents' combined total income and the child's age, the percentage of child support is multiplied by the costs of the child to arrive at the total amount of child maintenance payable.[41]

An Income Shares Model has additional benefits. Evidence from the US suggests that a percentage of income model, the current model in use in the UK, can create a perverse incentive for divorce as the equivalised household income of the parent with care can be higher after separation than before.[42] In contrast, by taking both parents' incomes into account, this incentive is removed which can reduce the likelihood of unnecessary separation. Given that the estimated cost to the taxpayer of family breakdown currently stands at £51 billion[43], the CSJ urges the Government to make tackling needless family breakdown a priority. Reforming the child maintenance system would be a good start.

Recommendation 2: The Government should design a new child maintenance system guided by the principles of an Income Shares Model.

While redesigning the child maintenance system[44] may be the long-term solution to address the fundamental problems of current child maintenance calculations, there are a number of adjustments that could more immediately relieve some of the pressure on paying parents.

Government reinvestment in UC, as the CSJ has previously suggested, would offer much needed support for the least well off paying parents.[45] While a reinvestment may not solve all of the problems of the child maintenance system, it would be welcomed by targeting more support to those who are "just about managing." This could be done in two ways: factoring child maintenance payments into UC calculations, and reintroducing the work allowance.

The Government could change UC calculations so that child maintenance payments are included in net income calculations. As illustrated above, UC awards are currently blind to the amount of child maintenance that is paid, resulting in EMTRs up to 107 per cent. This change would see the EMTRs of over 100 per cent disappear and the incentive to work reinstated.

The result of this could be twofold. With the disincentive to work removed, it is conceivable that more paying parents will move into work - as UC has proven is possible[46] - or increase their hours worked. As such, the paying parents' gross income would increase, as would their support to the parent with care, leaving both parents, and the children better off. In addition, with higher earnings, the paying parent will require less UC support.

Recommendation 3: Change UC calculations to include child maintenance payments in net income calculations.

41 Humanservices.gov.au. (2018). Child support assessment - Basic formula - Australian Government Department of Human Services. [online] Available at:https://www.humanservices.gov.au/individuals/services/child-support/child-support-assessment/how-we-work-out-your-assessment/basic-formula [Accessed 4 Sep. 2018].

42 Brinig, Margaret F. and Allen, Douglas W., "Child Support Guidelines and Divorce Incentives" (2012). Journal Articles. 679. http://scholarship.law.nd.edu/law_faculty_scholarship/679 [Accessed 3 Sept. 2018]

43 Juosila, K. (2018). Cost family failure 2018 update | Relationships Foundation. [online] Relationshipsfoundation.org. Available at: http://www.relationshipsfoundation.org/cost-family-failure-2018-update/ [Accessed 3 Sep. 2018].

44 Based on an Income Shares model, versions of which are used in Australia, the majority of US states, and Norway.

45 Centreforsocialjustice.org.uk. (2018). Available at: https://www.centreforsocialjustice.org.uk/core/wp-content/uploads/2017/10/Universal_Credit_Report.pdf [Accessed 17 Aug. 2018].

46 https://www.gov.uk/government/publications/universal-credit-estimating-the-early-labour-market-impacts-updated-analysis

The prompt for this work was the evidence submitted by Dr Christine Davies to the 2016-2017 Work and Pensions Select Committee Inquiry into Child Maintenance.

However, this does not imply any endorsement by Dr Davies of the views, analysis, and recommendations contained in this report.

C. Davies "*Further written evidence from Dr Christine Davies*" Data.parliament.uk. Available at: http://data.parliament.uk/WrittenEvidence/CommitteeEvidence.svc/EvidenceDocument/Work%20and%20Pensions/Child%20maintenance%20services/written/47429.html [Accessed 20 Aug. 2018].

C. Davies "*Written evidence from Dr Christine Davies*" Static1.1.sqspcdn.com. (2016). Available at: http://static1.1.sqspcdn.com/static/f/861186/27299485/1477042951347/DR+Davies+submission+to+Westminster+child+support+enquiry+-+October+2016.pdf?token=VlOI3z6HR3N3iGiFfBa6va57cyk%3D [Accessed 20 Aug. 2018].

THE CENTRE FOR SOCIAL JUSTICE
10 Greycoat Place
Westminster
London
SW1P 1SB
United Kingdom

t: +44 (0) 20 3766 0500

Twitter: @csjthinktank

www.centreforsocialjustice.org.uk

CSJ The Centre for Social Justice